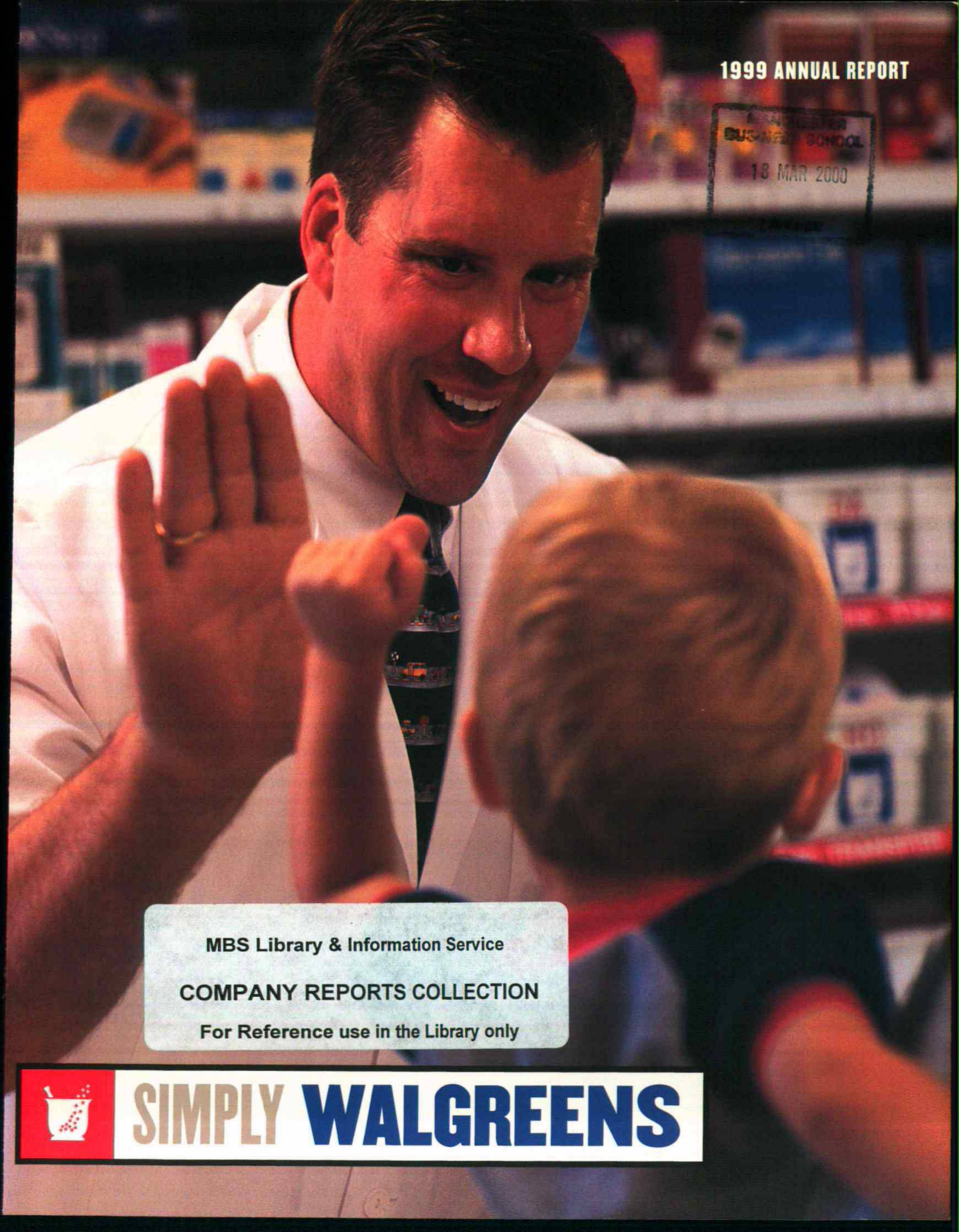


1999 ANNUAL REPORT

SIMPLY WALGREENS

SIMPLY TIME

SIMPLY HEALTH

SIMPLY CHOICE

SIMPLY PEOPLE

SIMPLY THERE

SIMPLY FUN

SIMPLY TRUST

About the cover

John Byford manages the pharmacy at 301 S. Santa Fe Avenue in Edmond, Oklahoma. "The great thing about kids," he says, "is that even when they're sick, you can distract them."

John's easy way with his patients is one reason his profession is consistently ranked among the most trusted. "If you're available and reliable, people will trust you," says Byford. "And if you take time to answer questions and calm fears, you become one of the family."

Edmond is a suburb of Oklahoma City, a market Walgreens entered in 1995 and where we now have 16 stores.

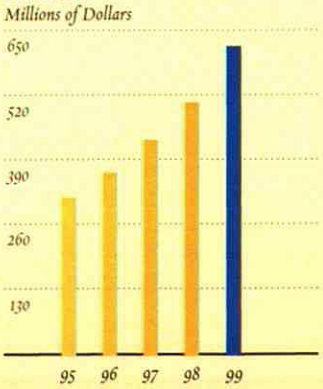
WALGREENS MAKES LIFE SIMPLER FOR THE AMERICAN CONSUMER

FINANCIAL HIGHLIGHTS

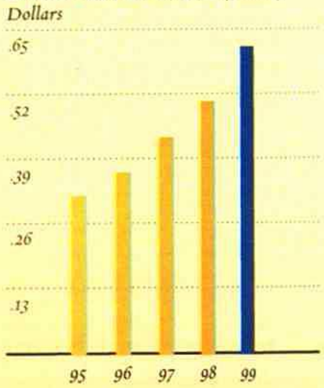
For the years ended August 31, 1999 and 1998

(Dollars in Millions, except per share data)	*1999*	*1998*	*Increase*
Net Sales	**$17,838.8**	**$15,306.6**	**16.5%**
Net Earnings	**$ 624.1**	**$ 510.8**	**22.2%**
Net Earnings per Common Share (diluted)	**$ .62**	**$ .51**	**21.6%**
Shareholders' Equity	**$ 3,484.3**	**$ 2,848.9**	**22.3%**
Return on Average Shareholders' Equity	**19.7%**	**19.6%**	
Closing Stock Price per Common Share	**$ 23 3/16**	**$ 19 1/4**	
Total Market Value of Common Stock	**$ 23,281**	**$ 19,182**	**21.4%**
Dividends Declared per Common Share	**$ .13**	**$ .125**	**4.0%**

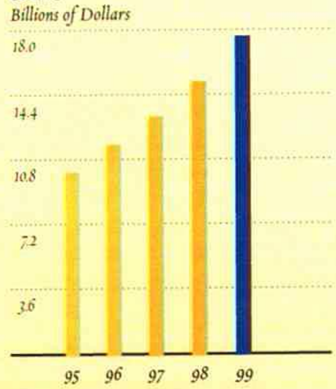
EARNINGS
Millions of Dollars



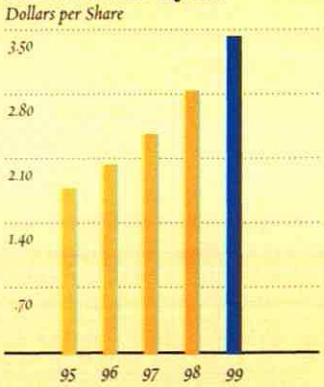
EARNINGS PER SHARE (DILUTED)
Dollars



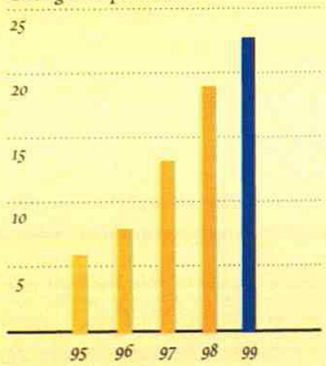
SALES
Billions of Dollars



SHAREHOLDERS' EQUITY
Dollars per Share

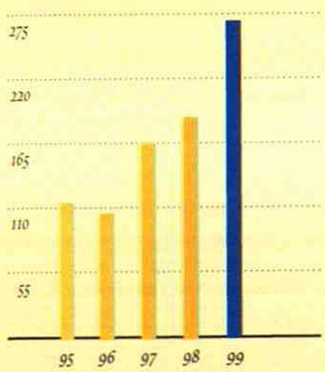


STOCK PERFORMANCE
*Closing Price per Share**



**Prices are adjusted for two-for-one stock splits in 1997 and 1999.*

NET STORE GROWTH



ABOUT THE COMPANY

Walgreens, one of the fastest growing retailers in the United States, leads the chain drugstore industry in sales and profits. Our strategy is to be the nation's most convenient — and most technologically advanced — healthcare retailer.

With a market capitalization of $23 billion, we rank fifth among U.S. retailers. Sales for 1999 reached $17.8 billion, generated by 2,821 stores in 39 states and Puerto Rico.

Founded in 1901, Walgreens today has more than 107,000 employees and 53,000 shareholders of record. Our drugstores serve 2.6 million customers daily and average $6.1 million in annual sales per unit. That's $591 per square foot, the highest among the four largest drugstore chains.

Walgreens is guided by a conservative fiscal policy and is dedicated to aggressive growth. We've paid dividends in every quarter since 1933 and have raised them in each of the past 23 years.

WALGREEN STOCK PERFORMANCE

10 YEARS

On August 31, 1989, 100 shares of Walgreen stock sold for $4,688. Ten years later, on August 31, 1999, those 100 shares, having split four times, were 1,600 shares worth $37,100, for a gain of 691 percent.

20 YEARS

On August 31, 1979, 100 shares of Walgreen stock sold for $3,850. Twenty years later, those 100 shares, having split seven times, were 12,800 shares worth $296,800, for a gain of 7,609 percent.

LETTER TO SHAREHOLDERS

NOVEMBER 18, 1999

Many of you are questioning our stock price – after a calendar year when it almost doubled, we're ending 1999 basically flat. Walgreen shareholders aren't used to that. So you ask "what's wrong with our company?" And the answer is, *"nothing... absolutely nothing."* Every performance indicator is moving in the right direction. What's supposed to be up... is solidly up. What's supposed to be down... is convincingly down.

Fiscal 1999 marked a *quarter century* of record-breaking sales and profits. Earnings rose 22.2 percent, our best increase in 16 years, excluding non-recurring items and tax rate changes. Sales jumped 16.5 percent to nearly $18 billion. Prescriptions, which now account for over 52 percent of sales, climbed 23.3 percent. And we achieved all this in a year when we lowered our cost of doing business and opened a record 386 new stores. Our net new 272 stores more than quintupled the number achieved by our closest competitors.

SO WHY IS OUR STOCK TREADING WATER?

Historically, stock prices follow company performance. If you chart 25 years at Walgreens, you'll see a steady earnings curve and a more jagged upward path for stock price. The average annual return on our stock during that period has been more than 30 percent. In calendar 1998, WAG skyrocketed – up 87 percent. We loved it, but many argued that our stock was overvalued at that level. 1999 has been a cool-off year, for us and the market in general.

The important thing to remember is that Walgreens *performance* has *not* cooled off and the future is as positive as ever. Investors look for quality companies... consistent companies. That's Walgreens to a "T." Plus, we're virtually debt-free, finance growth internally and have the resilience to manage for long-term profitability. Our 98-year history gives us the benefit of perspective. We've watched retailers come... and go. We've had tremendous success... we've weathered mistakes. We understand the retail drugstore business, we know where we need to go, we will stay our course.

THE MOST "NATIONAL" OF DRUGSTORE CHAINS... PLUS WE'RE WORLDWIDE ON THE WEB

Walgreen stores are "7-11s on steroids," geared to a time-starved, "laser" shopper. We're the most "national" drugstore chain, a status strengthened this year as we entered Idaho, North Carolina, South Carolina and South Dakota. By next Christmas, we'll add four more states – Georgia, Maryland, Utah and Wyoming, bringing us to 43. Our major upcoming markets are Atlanta, Baltimore and Southern California, where we plan to operate 200 full-size stores by 2005.

Fiscal 2000 will be a watershed year, with a capital expenditure budget topping $1 billion; 450 new stores, including our 3,000th; and the launch of a new website. We encourage you to log on to walgreens.com. Our new online pharmacy launched in October and our full store site is coming in the spring. *(Please see the interview on page 4.)*

We've gained market share in 49 of our top 50 markets

We built Walgreen stores in the neighborhoods of 21 million Americans last year. And in each of the past five years, we've gained prescription market share in all but one of our top 50 markets. While 35 percent of our growth since 1995 has been in new markets, we don't practice "age discrimination." We're adding stores in virtually every existing market, including our oldest – Chicago – where we plan to grow from 300 to 400 stores over the next three years.

L. DANIEL JORNDT (LEFT), CHAIRMAN AND CHIEF EXECUTIVE OFFICER, AND DAVID W. BERNAUER, PRESIDENT AND CHIEF OPERATING OFFICER

Speaking of market share, let's look inside the store

The most important measure of sales improvement is growth in our share of the *national* market – how we perform vis-à-vis all drug, grocery and mass merchandise outlets. This past year, we gained share in 48 of our 50 top-volume categories. Our share of the drugstore market business is two percentage points higher than a year ago and we are also outperforming grocery and – more importantly – mass discount retailers in key categories such as vitamins, cosmetics, batteries and film. We have never seen this strong a trend ... *never.*

What do we worry about?

Not growth potential. *Not* site availability. *Not* our balance sheet. Most of our concerns are tactical, rather than strategic ... we believe both our brick & mortar and online strategies are on target. Our top worry is attracting and training quality employees, particularly pharmacists. We're also concentrating on payroll control, initiatives to continue to slow the decline of third party prescription margins, our evolving relationship with managed care organizations and customer service. Particularly on the last, we need to be better.

Board of Directors welcomes new members

We welcomed three new Board members in fiscal 1999 – Dave Bernauer; Executive Vice President of Marketing Vern Brunner; and Alan McNally, Chairman and CEO of Harris Bankcorp Inc. A fourth has been nominated for election in January – David Schwartz, a retired Arthur Andersen partner. We will greatly miss the counsel of our two retiring members. For 11 years, Bill Springer has been one of the best strategists to serve on this Board. And only a handful of people have contributed as much to Walgreens success, *ever*, as Chuck Hunter, who remained on the Board after retiring as Vice Chairman in 1994. We would not be where we are today without Chuck's early visions for retail technology. We're also pleased that Charles R. Walgreen III remains as Chairman Emeritus after retiring as Chairman this past July. His 47 years of experience and leadership are irreplaceable.

Ours is a Board which fully understands that 99 percent of success in retailing is execution. The real story of Walgreens 25 record years is the 1,000 things done right ... in nearly 3,000 stores ... every day. We thank our 107,000 employees for that ... and you, our shareholders, for your long-term enthusiasm for Walgreen Co.

L. Daniel Jorndt — CHAIRMAN & CEO

Dave Bernauer — PRESIDENT & COO

INTERVIEW WITH DAVE BERNAUER

QUESTIONS AND ANSWERS

DAVE BERNAUER

A DECADE OF GROWTH

	1989	1999
Total stores	1,484	2,821
Freestanding stores	110	1,683
24-hour stores	53	620
One-hour photo stores	2	2,604
Drive-thru pharmacies	0	1,551

Q: The press has criticized Walgreens for being "late" to the online pharmacy race. Your response?

A: First, the press has generally failed to report that Walgreens has been an Internet player since January 1998 – we were filling more than 2,000 Internet prescriptions a day even before our new site was launched in October. Secondly, I agree with what Wal-Mart told investors recently: "This is a journey... not a race." The Internet drugstore winner will not be determined in just a year. It's a long-term competition which has a lot to do with brand-name recognition, one of our biggest advantages.

Q: There are concerns whether anyone can make money selling prescriptions over the Internet.

A: Those concerns are legitimate. Prescription margins are razor-thin, especially for mail service. So why is Walgreens spending over $20 million on a website? To offer consumers choice, convenience and – most critical – information. Our site's ultimate value is the targeted, fast, efficient communication it allows with users...communication which helps improve healthcare and ties consumers more securely to Walgreens. We don't see the Internet as an either/or thing – our brick & mortar stores support our website and vice versa.

We believe our biggest pharmacy users will be patients who substitute a mouse for their touch-tone phone, clicking on a refill they'll then pick up at a store. Will some people want mail delivery? Of course...and that's already a Walgreen core competency. But consider where mail pharmacy has gone – for several years, it's been stuck at less than 14 percent of prescription sales, about half what it was predicted to be by 2000.

Q: What about alliances?

A: Our major Internet pharmacy alliance is with the Mayo Clinic – we are the only online pharmacy to link users to Mayo, the most respected health information name in America, if not the world.

In terms of an overall alliance, we said "no thanks" when approached by the pure dot-com pharmacies, choosing to build our own site. Our power lies in full integration with our pharmacy and distribution systems. The "back-end" of websites isn't the glitz which grabs headlines, but it's where the ultimate patient satisfaction and potential profitability reside. When you use Walgreens, your patient profile is seamlessly and automatically updated no matter where or how you purchase a prescription – online, in any store or through the mail.

We approached alliances with PBMs (pharmacy benefit managers) the same way. While we considered these very carefully, we believe that at this time our brand name, national presence and established managed care relationships negate our need to enter costly outside ventures.

Q: What about the home delivery test Walgreens is conducting in San Francisco with Peapod, the online grocer?

A: Since June, we've offered Bay Area residents prescription refills and about 6,700 health and beauty items through Peapod's website. Acceptance has been good and this pilot is an important learning experience for us. Will it go further? It's too early to say.

Q: You came out of systems. What technology are you most excited about now?

A: Remember – I really came out of the stores... I started as a pharmacist in 1967 and was in operations until 1990. But, yes, I'm a huge proponent of retail technology. Just look what our pharmacy and inventory systems have done for our bottom line – SIMS, our inventory management system, has saved more than $700 million this decade.

The biggest thing on our technology table is BDM – Basic Department Management – which tailors merchandise assortment and shelf placement to individual store neighborhoods. BDM goes way beyond stocking snow shovels in Minneapolis when you're selling beach balls in Orlando. It gives store managers the tools to adjust basic departments – like pain relief, foot needs, skin care – to the ordinarily homogenous, tight-knit demographic groups in their one-to-two-mile trade areas. To customers, the changes will be subtle – they'll only know it's easier and faster to find exactly what they need at Walgreens. BDM is based on the premise that what we *don't* carry is as important to convenience as what we *do*. Rollout starts in January and benefits will accrue for the next decade.

Q: What's been most exciting during your first year as president?

A: We're experiencing the best general merchandise sales trend I've seen in my Walgreen career. Credit goes to convenient freestanding locations, aggressive marketing programs and expanded employee training, particularly for photo specialists and pharmacy technicians.

New stores are opening stronger out of the box than ever. This is partly because we have the resources to identify and pay up for the best corners, but it also speaks to our marketing power and store level execution. A quick look at the chart on the facing page helps explain why our average store sales volume is more than 35 percent ahead of the three other major drugstore chains. Over the past decade, we've positioned Walgreens as the most convenient and profitable national drugstore chain. These efforts will accelerate in the next decade as we anticipate – and meet – the always changing needs of the American consumer.

CAREERS: FROM STORES TO THE WEB

Whether store management or pharmacy, the opportunities for career development at Walgreens are as varied as the people who work here. Linda Hunter *(upper left)*, a 13-year Walgreen veteran, manages a 24-hour store in Houston which will soon pass $1 million in monthly sales. Senior pharmacy technician Stephanie Kilbourn *(upper right)*, in Oklahoma City, passed her certification exam last November. And 18-year Walgreen pharmacist Cheryl Smith *(shown on web page)* recently joined the company's website development group. She is one of several pharmacists who answer online questions at walgreens.com.

PLAYING BEAT THE CLOCK?

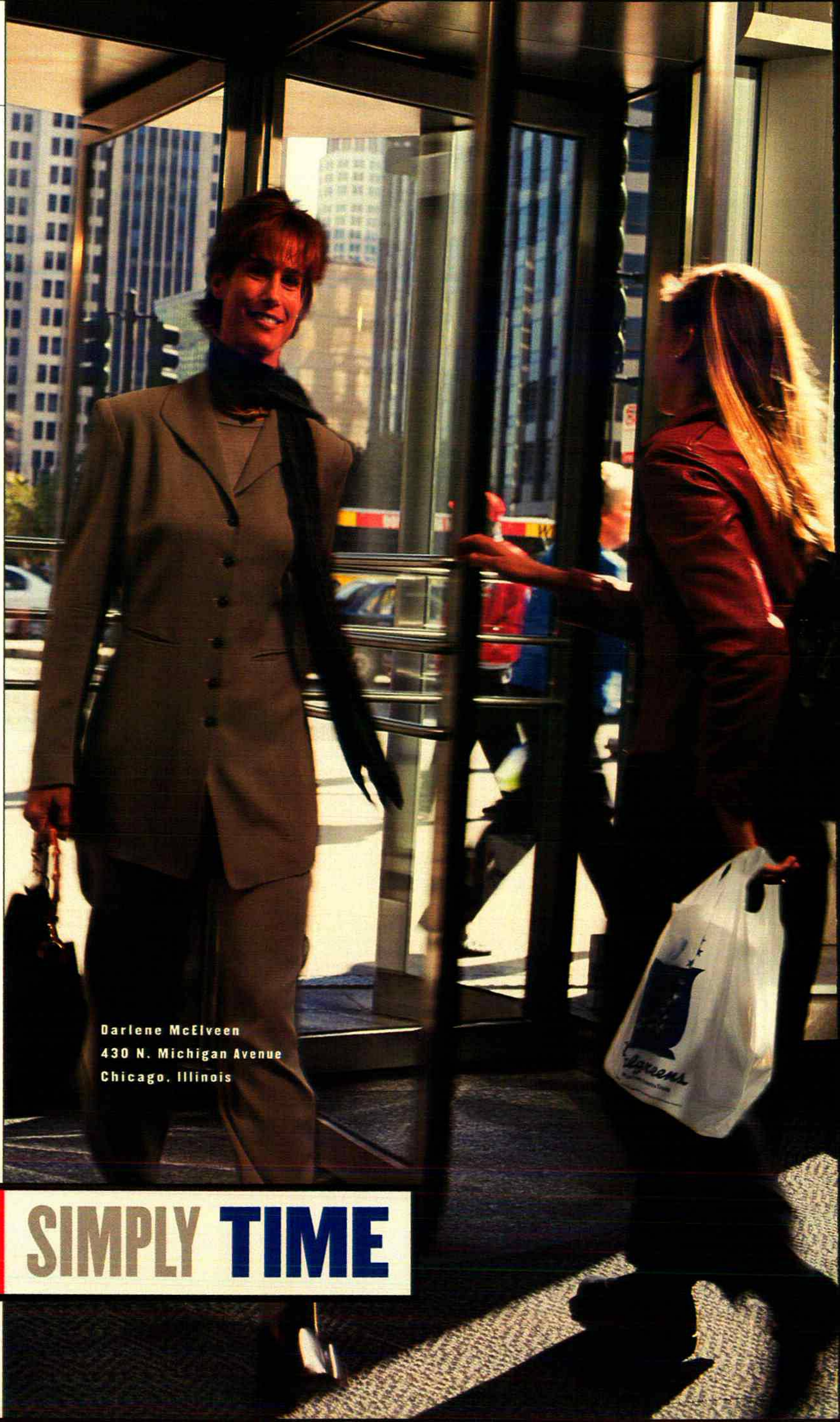
According to *American Demographics* magazine, "Consumers on a constrained time budget will likely favor small shops over large ones, spend less time comparing prices, use technology to reduce transaction time and patronize businesses that make life easier."

WE HELP YOU WIN

Recent studies show an average Walgreen transaction, car door to car door, is 13½ minutes. And 57 percent of all transactions are for one or two items, making Walgreens the logical store for quick in-and-out shopping.

ON THE SHELF

We'll spend $500 million building or enlarging distribution centers over the next five years. Our newest 650,000-square-foot facility in Florida will open in 2001 and service 600-800 stores.



Darlene McElveen
430 N. Michigan Avenue
Chicago, Illinois

SIMPLY TIME

We don't break your stride

Pantyhose run. Kids catch colds. Co-workers have birthdays. Whatever the last-minute need, Walgreens is often the answer...particularly in dense downtowns like Chicago.

"We have two types of customers," says Jim Murphy, manager of this Walgreens, one of three in a half-mile stretch of Michigan Avenue. "Commuters and tourists. We're across the street from large hotels and the *Chicago Tribune* tower. And with more than 3,300 customers coming through our doors on any given day, we've got to be fast."

THE "GOT-TO-GET-IT-NOW" STORE

Since 1970, the proportion of married couples in which both partners work has soared from 36 percent to 60 percent, sharply curtailing the time available for domestic tasks. In fact, 51 percent of Americans strongly agree they're willing to pay for products and services that "will make life easier for me and my family." That's why everything we do – from site location to building design to point-of-sale technology – is focused on helping time-starved customers find what they need...and get out!

In 1991 we pioneered drive-thru pharmacy, not because people asked for it, but because we try to give our customers the services they're *going to want.* More than 50 percent of our stores now offer drive-thru. We also led the way out of strip centers into freestanding stores. And although no one *expects* to get sick at 2 a.m., we operate 620 24-hour stores...40 percent more than our closest competitor.

Touch-Tone Prefills is another Walgreen time-saver. Dial the phone number on the prescription label, enter a 12-digit number and select a pick-up time. Our customers like it so much, nearly 200,000 prescriptions per day enter our system via Touch-Tone.

Are we perfect? Of course not. But we're working on it. We know customer service means having well-stocked shelves and we continue to enhance existing technology and develop new systems to improve in-stock conditions. SIMS, our proprietary inventory management system, uses point-of-sale information to time replenishment shipments to our stores.

Just as important to our convenience strategy is having the *right* products on our shelves. This year we're rolling out Basic Department Management (BDM), a marketing tool that tailors core departments based on transaction data and store demographics. Store managers will be able to select the *size* of departments – and *assortments* within them – to target trade areas as small as one to two miles. The result? We'll carry less of what customers *don't* want...and more of what they *do.*

See how good 70 can look?

San Franciscan Bill Chin has been practicing Tai Chi – a 600-year-old Chinese exercise program – for 40 years. More and more people, especially older adults, are discovering Tai Chi's benefits, including improved strength, muscle tone, flexibility and balance.

Chin, now 71, is well known around San Francisco as a respected practitioner of health and wellness. He's taught Tai Chi at Golden Gate Park for 12 years and, like Walgreens, has been a part of this community for decades.

IT'S GOOD TO BE OLD

You've probably heard this statistic a hundred times: By 2025, nearly one-fifth of the American population will be 65 or older. Of course, this is good news for baby boomers, who have always benefited from the strength of their numbers. But it's also good news for drugstores, who see older patients 7 times more often than young ones.

Today, more than 52 percent of our sales come from pharmacy patients. And while the prescription "pie" is getting bigger – driven by an aging population, thriving pipeline of new drugs and managed care – *our share* of the pie is growing even faster. Last year, prescription sales in chain drugstores increased 20 percent...while Walgreens pharmacy sales were up more than 23 percent.

But managed care continues to pressure pharmacy margins. Third party insurers, which now pay for more than 80 percent of Walgreens prescriptions, negotiate tough deals. But so does Walgreens. Through our managed care division, Walgreens Health Initiatives, we continue to slow the decline of profit margins. Our policy is to drop or refuse plans in which rates are too low.

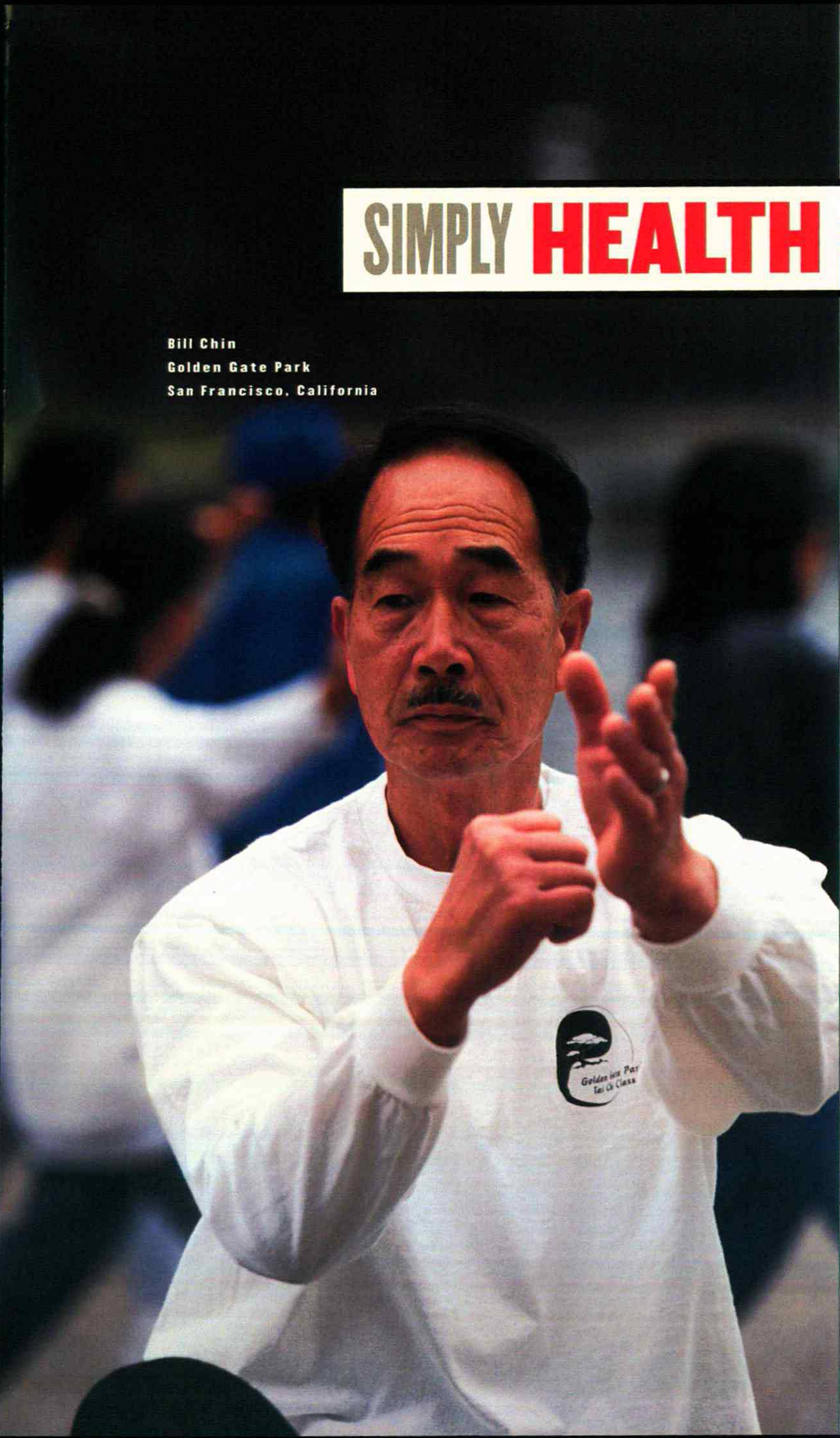
Efficiency is one of our greatest strengths in margin protection. In 1999, we spent more than $15 million on improvements to Intercom Plus, our proprietary pharmacy system. And we'll spend another $20 million in 2000 enhancing software features and replacing aging equipment.

Who sees the benefits? Patients and pharmacists. Patients wait less and have greater access to counseling. Pharmacists do more of what they went to school for – counseling and verifying prescriptions.

Just as the prescription boom continues, natural health items – vitamins, minerals, herbals and specialty supplements – drive more and more customers into our stores. Walgreens vitamin sales gained significant national market share last year as we expanded our product line, stocked larger, economical sizes and continued to offer everyday low prices.

Young or old, good health is our priority. It's what we've been doing for nearly a century.

SIMPLY HEALTH



Bill Chin
Golden Gate Park
San Francisco, California

THE AGING OF AMERICA

Seventy-seven percent of prescription drugs are purchased by people 50 and over. The average 70-year-old takes 16 prescriptions per year. By 2005, more than 40 million Americans will be over 70.

PRESCRIPTIONS FILLED

Walgreens filled 254 million prescriptions in 1999 – 9 percent of the U.S. retail market and more per store than all major competitors.

WALGREENS HEALTH INITIATIVES

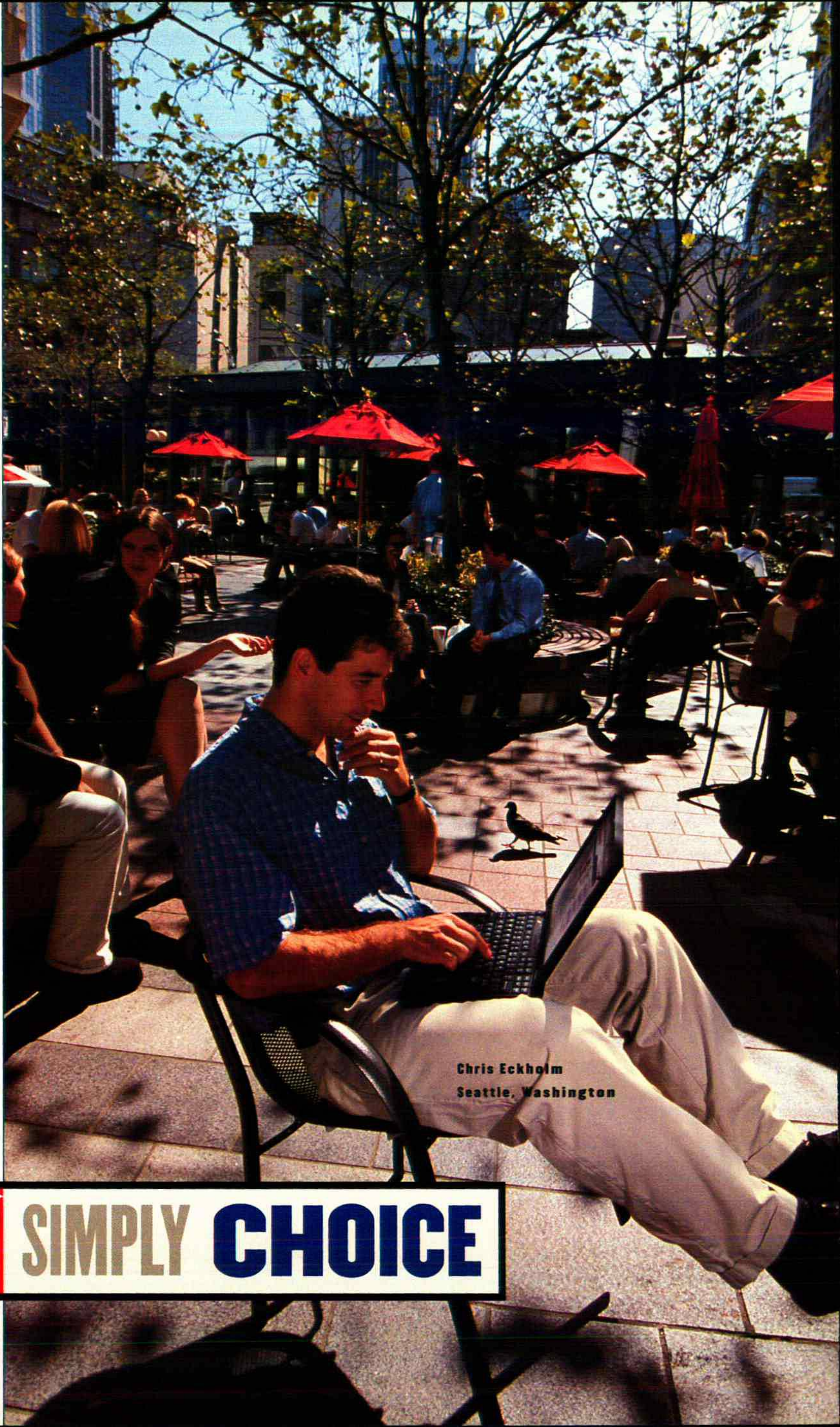
Walgreens Health Initiatives, our managed care division, packages a full complement of services to managed care groups, including retail and mail service prescriptions, durable medical equipment, home infusion services and three Pharmaceutical Care Centers (PCC). Our PCCs work with physicians, insurers, patients and pharmacists to help screen for diseases, provide appropriate medication and educate patients on the proper use of medication...all to increase patients' adherence and, ultimately, improve outcomes.

A NATION OF SURFERS

Two-thirds of all U.S. households will be online by 2004 according to a report from the Yankee Group.

KEY FEATURES OF WALGREENS WEBSITE

- Ability to place new and refill prescription orders online for mail delivery to your home or same-day pickup at any Walgreens
- Online acceptance of prescription insurance programs used at Walgreens
- Access to your personal prescription profile through a secure, password-protected area
- Health information from the Mayo Clinic
- E-mail prescription refill reminders



Chris Eckholm
Seattle, Washington

SIMPLY CHOICE

Anyway, anywhere, anytime

The Internet – once the sole domain of scientists and the military – has become America's communication link. We keep in touch with children and grandkids, we purchase goods and services and, quite often, we find important health information that makes our lives better.

Chris Eckholm, who injured his elbow as a child, is one of 37 million Americans who suffer from arthritis. The good news is there are ways to meet his challenges and lead a fulfilling life. Chris, who lives in Seattle, relies on regular medication from Walgreens to reduce stiffness and relieve occasional pain. And access to reliable information – from one of our 19 Seattle-area stores or through our website – helps him manage treatment...on his own terms.

THE POSSIBILITIES ARE ENDLESS

The drugstore industry hasn't seen a media frenzy like the one caused by online pharmacies in years. Internet sites launched seemingly overnight...and were purchased by large chains almost as quickly. Business writers analyzed the opportunities and hurdles and stock analysts worried about their impact on traditional retailers. Frankly, we've never understood the hype.

We've been filling prescriptions on our website for nearly two years. And before we launched our new online pharmacy in October, more than 2,000 refills per day came into our pharmacies via the Internet. For us, it's just one more way to serve our customers better.

Our new online pharmacy is *totally integrated,* offering patients seamless service whether a prescription is ordered in a store, online or through our mail service facilities. And unique patient profile screens give access, via a password-secured site, to prescription history online. These personal profiles, which contain the same information Walgreen retail pharmacists use to prepare prescriptions and consult patients, check for potential allergy/drug interactions for over-the-counter drugs as well as prescription drugs. The same goes for helping mom or dad. With their PIN number, caregivers can monitor prescription use or provide it to doctors if necessary.

Just as important, our alliance with the Mayo Clinic takes us closer to being the premier health information resource on the Internet, coupling two strong, respected, century-old healthcare names. Whether you want to know about allergy and asthma, Alzheimer's, cancer, children's health, nutrition or alternative medicine, you'll find the information at walgreens.com.

And in the spring, we'll expand our site, offering over-the-counter health items, beauty and cosmetic products and other merchandise found in our stores.

107,000 strong...and growing

"I've been working for Walgreens for a year," says Uronda Sterling, head photo specialist at 5820 Buffalo Speedway in Houston. "As soon as I got Kodak training and learned how to run the one-hour lab, my career took off.

"My customers count on me to help them get the most out of their pictures," she adds. "Like the pharmacy, the photo department deals with matters of the heart. Our customers expect their photos to be treated with care."

Sterling will attend college in the spring and pursue an accounting degree. "I love my customers and the company," she says. "I've decided to minor in photography and work part-time after I graduate. This is too much fun."

TRAINING PAYS OFF

"Where you have knowledge in a department, business follows," says CEO Dan Jorndt. And nowhere is this more evident than in our photo departments, which turned in strong double-digit sales increases last year. We are also growing our national share of the film market at a faster rate than achieved by the drug, grocery and mass merchandise industries.

Just 10 years ago, only two stores in our whole chain had one-hour photo labs. Today, virtually all stores offer one-hour photoprocessing, passport photos, print-to-print machines and photo greeting cards. And with these new services, employees are getting more training ...and higher wages.

Training will continue. Every new store is now built with a dedicated training room, and many older stores are being retrofitted. Over the next two years, each store will receive a multimedia PC leveraging brand-new technology to capture and store video transmissions. Stores will have access to up-to-date training programs to download as needed. As new system enhancements roll out, so will the video training.

One critical area seeing improvement due to training efforts is pharmacy. There's a pharmacist shortage and we know it's going to get worse. While Walgreens continues to attract quality pharmacists, we are also concentrating on how to improve both service and work environment. One answer is well-trained, certified pharmacy technicians. In just two years, over *60 percent* of our full-time techs have passed a national certification exam and earned the pay increase that goes with it. Seventy-two percent of our store managers and 36 percent of executive assistant managers are also now certified pharmacy techs.

"When you give people more responsibility and more pay," says Jorndt, "they're happier... and they stay with you."

OPPORTUNITY KNOCKS

In the last two years, Walgreens promoted 18 new district managers and added 732 store managers. Over the next five years, opportunities for store-level promotions will be at their greatest. We'll need 80 new district managers, 3,000 additional store managers, 6,500 executive assistant managers and 20,000 management trainees.

PEOPLE ARE WATCHING

We rank 98th on the Fortune 500 list and for the sixth consecutive year, Walgreens was included on *Fortune* magazine's "Most Admired Corporations in America" list.

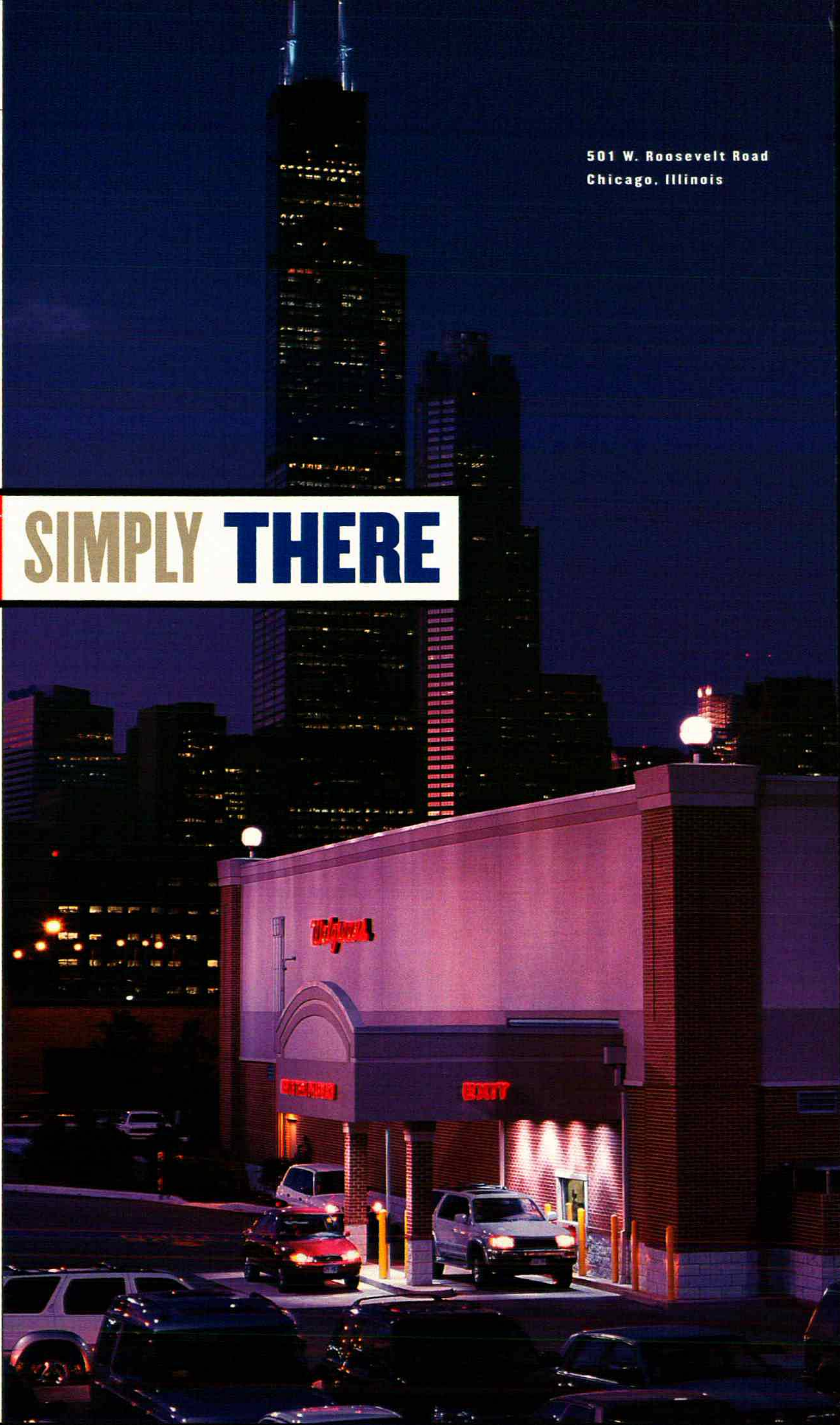
SIMPLY PEOPLE

Uronda Sterling
One-Hour Photo
Houston, Texas

SWEET HOME CHICAGO

We have more than 300 stores in Chicago and the suburbs...and we'll add another 100 in the next three years. We operate 14 stores within a one-mile radius in downtown Chicago... and 11 in a *half mile.*

SIMPLY THERE



501 W. Roosevelt Road
Chicago, Illinois

WE REACH FAR...

We've entered 56 new markets since 1991 and we'll add 16 more in 2000, strengthening our position as the most "national" drugstore in the country. We entered four more states in 1999 and by next Christmas we'll add another four, bringing us to 43 states and Puerto Rico.

...AND NEAR

In 1999, we built drugstores in the neighborhoods of 21 million Americans. Nearly half the U.S. population now lives within five miles of a Walgreens.

In Chicago, "drugstore" = Walgreens

What's so special about Jell-O? It's the only brand of gelatin most people can name. That's what we want to be in our industry, whether in Chicago, Dallas or *your* hometown.

This 24-hour Walgreens at 501 W. Roosevelt Road is the "neighborhood" store to a diverse group of customers. And we want it to be the only one – whether we're serving Mayor Daley and his family, who live a few blocks away...or Mrs. Jones and *her* family.

HERE, THERE AND EVERYWHERE

In 1999, Walgreens opened a record 386 stores, including 96 that were relocated to more convenient sites. Plans call for 450 new stores during fiscal 2000 – that's a store every 19 hours – and a total of 6,000 units by 2010.

We lead the industry in sales and profits...both *overall* and *per store*. Our average store sales volume is more than 35 percent higher than that of our closest competitors. And we remain ahead of *all* competitors when it comes to average prescriptions filled per store per day.

Thirty-five percent of our growth in the past four years has been in new markets...and they'll continue to play a big part in our expansion. Three years ago, for example, we moved into Dallas. We started with 14 stores and today have more than 75...by 2002, that number will soar to 125.

We're every bit as aggressive blanketing our *established* markets as we are new markets. In Tucson we have 32 stores today...and room for 20 more. And in St. Louis, our fourth largest market, we have 87 stores and far and away the number one market share. We'll build 14 new stores there in the next two years.

Why the density? Our research shows the denser the market, the more profitable our average store. New stores in existing markets do two more things: They enhance our convenience image and spread advertising, overhead and distribution costs over a larger base.

Over the next five years, Texas, California, Florida, Georgia and Arizona will be the highest growth states. We've built number one market share in markets throughout all those states except Georgia...and that's coming. We'll open our first Atlanta store before Christmas, and we already have 30 approved sites opening over the next two years.

Other major new markets are Baltimore, Salt Lake City and Southern California, including San Diego, Los Angeles, Orange County and Palm Springs. We'll go from zero full-size stores in Southern California to 200 by 2005. And just as many smaller markets are opening or coming soon, including Charleston, Boise, Roanoke, Fayetteville, Hilton Head, Amarillo, Lubbock, Mobile and Reno. Some wonder how close we can grow. We say, "just watch."

We're a whole lot more than aspirin

"We have a block party every year," says Glen Ellyn, Illinois, resident Janis Longbons. "And everything – from cups and plates to streamers and balloons – comes from Walgreens."

Janis' niece, Grace, didn't let a rainy June day get in the way of fun. "We decorated bikes and had water balloon fights," says her aunt. "But the bubbles were the kids' favorite." And Walgreen paper plates filled a dual role: food servers and bicycle wheel adornments. Admit it, drugstores can be fun.

SEASONAL JOY ALL YEAR 'ROUND

Half a million Halloween masks. Four million rolls of wrapping paper. Two million pounds of chocolate hearts. No matter what the season, Walgreens makes any holiday happier.

Fully half of Walgreens sales represent impulse purchases. The average customer comes into our store looking for 1.6 items and comes out with 3.3. Some reasons? Solid in-stock conditions, frequent in-store promotions and strong execution by our employees.

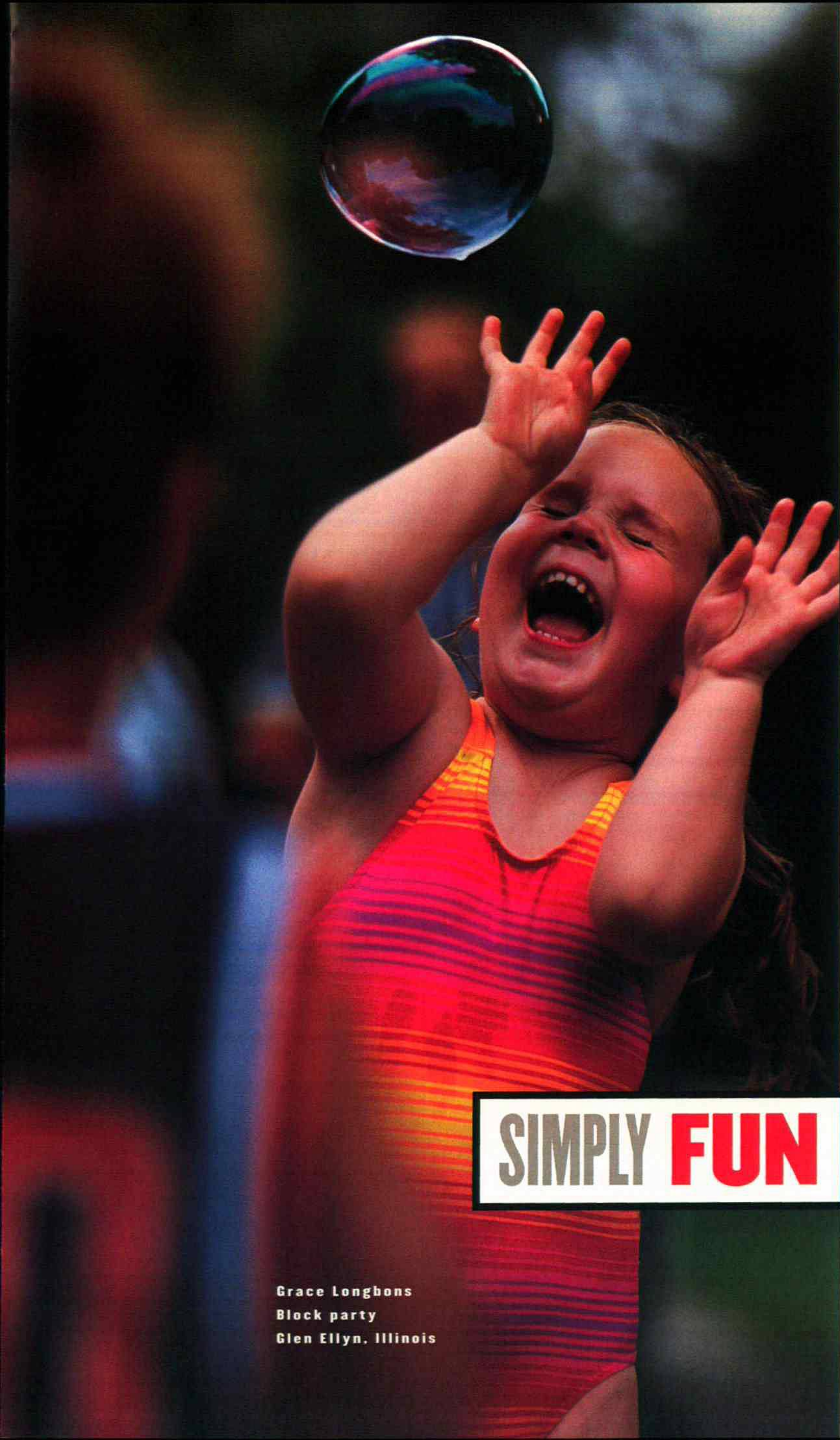
In 2000, we will reduce the number of items in our weekly ad circulars, increasing visibility of sale items for customers and simplifying store-level ordering. "Service means a lot of things to people," says executive VP of Marketing Vern Brunner, "but there's no denying that being in stock is at the top of the list."

A recent trade magazine survey of chain drugstores, discounters and supermarkets named Walgreens the merchandising "pacesetter" and called us the "premier place for photoprocessing and greeting cards."

Our research backs this up. We asked men and women in Chicago and San Antonio how they shop at Walgreens. The research identified two types of shoppers: "browsers," those who come to Walgreens for the *experience,* and "lasers," those precise shoppers who need one thing and one thing only.

New products, colors and styles drive regular "browser" customers into our stores for "what's new" type of shopping. And our "Compare and Save" displays give price-sensitive shoppers the incentive to try private label brands.

"I *love* Walgreens," said one San Antonio customer. "My son heads for the toy aisle, I can always find a new cosmetic treat and it's small enough that my elderly mother's not overwhelmed. Plus, the cash register receipt doesn't blow my budget."



Grace Longbons
Block party
Glen Ellyn, Illinois

SIMPLY FUN

ONE GIANT LEAP

We're gaining national market share in 48 of our 50 top-volume categories and we picked up two full percentage points in our share of the chain drugstore market in the past year.

SATISFYING URGES

Our customers walk in planning to buy 1.6 items and leave with 3.3.

PRIVATE LABEL GETS RAVES

Twenty-two percent of the film we sell is private label, which was rated number one by *Good Housekeeping* magazine for the sharpest contrast, truest color and "jump-out-at-you" details. And nearly one of every four private label disposable cameras sold in America is Walgreens brand.

NEW ORLEANS, LOUISIANA

ELEVEN-YEAR SUMMARY OF SELECTED CONSOLIDATED FINANCIAL DATA

Walgreen Co. and Subsidiaries (Dollars in Millions, except per share data)

Fiscal Year		*1999*	*1998*	*1997*
Net Sales		**$17,838.8**	**$15,306.6**	**$13,363.0**
Costs and Deductions	Cost of sales	**12,978.6**	**11,139.4**	**9,681.8**
	Selling, occupancy and administration	**3,844.8**	**3,332.0**	**2,972.5**
	Other (income) expense *(1)*	**(11.9)**	**(41.9)**	**(3.9)**
	Total Costs and Deductions	**16,811.5**	**14,429.5**	**12,650.4**
Earnings	Earnings before income tax provision and cumulative effect of accounting changes	**1,027.3**	**877.1**	**712.6**
	Income tax provision	**403.2**	**339.9**	**276.1**
	Earnings before cumulative effect of accounting changes	**624.1**	**537.2**	**436.5**
	Cumulative effect of accounting changes *(2)*	**–**	**(26.4)**	**–**
	Net Earnings	**$ 624.1**	**$ 510.8**	**$ 436.5**
Per Common Share *(3)*	Earnings before cumulative effect of accounting changes			
	Basic	**$ .62**	**$ .54**	**$ .44**
	Diluted	**.62**	**.54**	**.44**
	Net earnings			
	Basic	**.62**	**.51**	**.44**
	Diluted	**.62**	**.51**	**.44**
	Dividends declared	**.13**	**.13**	**.12**
	Book value	**3.47**	**2.86**	**2.40**
Non-Current Liabilities	Long-term debt	**$ 18.0**	**$ 13.6**	**$ 3.3**
	Deferred income taxes	**74.8**	**89.1**	**112.8**
	Other non-current liabilities	**405.8**	**369.9**	**279.2**
Assets and Equity	Total assets	**$ 5,906.7**	**$ 4,901.6**	**$ 4,207.1**
	Shareholders' equity	**$ 3,484.3**	**$ 2,848.9**	**$ 2,373.3**
	Return on average shareholders' equity	**19.7%**	**19.6%**	**19.8%**

(1) Fiscal 1998 includes a pre-tax gain of $37.4 million ($22.9 million after-tax or $.02 per share) from the sale of the company's long-term care pharmacy business.

(2) Fiscal 1998 includes the $26.4 million ($.03 per share) charge from the cumulative effect of accounting change for system development costs. Fiscal 1993 includes the $23.6 million ($.02 per share) costs from the cumulative effect of accounting changes for postretirement benefits and income taxes.

(3) Per share data have been adjusted for two-for-one stock splits in 1999, 1997, 1995 and 1991.

1996	1995	1994	1993	1992	1991	1990	1989
$11,778.4	$10,395.1	$9,235.0	$8,294.8	$7,475.0	$6,733.0	$6,047.5	$5,380.1
8,514.9	7,482.3	6,614.4	5,959.0	5,377.7	4,829.2	4,356.4	3,848.5
2,659.5	2,392.7	2,164.9	1,929.6	1,738.8	1,582.7	1,406.9	1,278.1
(2.9)	(3.6)	(2.7)	6.5	5.5	9.1	3.3	9.7
11,171.5	9,871.4	8,776.6	7,895.1	7,122.0	6,421.0	5,766.6	5,136.3
606.9	523.7	458.4	399.7	353.0	312.0	280.9	243.8
235.2	202.9	176.5	154.4	132.4	117.0	106.3	89.6
371.7	320.8	281.9	245.3	220.6	195.0	174.6	154.2
–	–	–	(23.6)	–	–	–	–
$ 371.7	$ 320.8	$ 281.9	$ 221.7	$ 220.6	$ 195.0	$ 174.6	$ 154.2
$ .38	$ .33	$ .29	$ .25	$ .22	$ .20	$ .18	$ .16
.37	.33	.29	.25	.22	.20	.18	.16
.38	.32	.29	.23	.22	.20	.18	.16
.37	.32	.29	.23	.22	.20	.18	.16
.11	.11	.09	.08	.07	.06	.05	.05
2.08	1.82	1.60	1.40	1.25	1.10	.96	.84
$ 3.4	$ 2.4	$ 1.8	$ 6.2	$ 18.7	$ 123.0	$ 146.7	$ 150.1
145.2	142.3	137.7	144.2	171.8	155.3	138.9	118.3
259.9	237.6	213.8	176.2	103.8	85.1	77.1	68.6
$ 3,633.6	$ 3,252.6	$2,872.8	$2,506.0	$2,346.9	$2,074.4	$1,896.1	$1,666.3
$ 2,043.1	$ 1,792.6	$1,573.6	$1,378.8	$1,233.3	$1,081.2	$ 947.2	$ 823.4
19.4%	19.1%	19.1%	18.8%	19.1%	19.2%	19.7%	20.1%

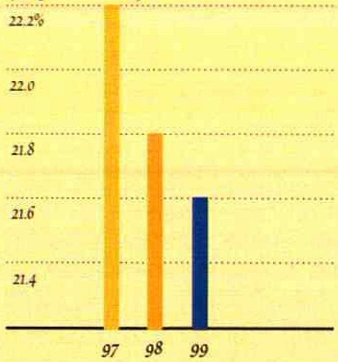
GLENDALE, ARIZONA

MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

Results of Operations

Fiscal 1999 was the twenty-fifth consecutive year of record sales and earnings. Net earnings were $624.1 million or $.62 per share (diluted), an increase of 22.2% from last year's earnings of $510.8 million or $.51 per share. Included in last year's results was a $26.4 million after-tax charge ($.03 per share) related to an accounting change and an offsetting $.02 per share gain on the sale of the company's long-term care pharmacy business which was recorded in the fiscal fourth quarter. The accounting change involved expensing the cumulative cost of business process reengineering activities that had been capitalized as part of system development projects. Operating earnings increases resulted from higher sales and improved expense ratios.

SG&A
(as a percent to sales)



Total net sales increased by 16.5% to $17.8 billion in fiscal 1999 compared to increases of 14.5% in 1998 and 13.5% in 1997. Drugstore sales increases resulted from sales gains in existing stores and added sales from new stores, each of which include an indeterminate amount of market-driven price changes. Comparable drugstore (those open at least one year) sales were up 11.2% in 1999, 9.4% in 1998 and 8.1% in 1997. New store openings accounted for 10.0% of the sales gains in 1999, 10.4% in 1998 and 8.6% in 1997. The company operated 2,821 drugstores as of August 31, 1999, compared to 2,549 a year earlier.

Prescription sales increased 23.3% in 1999, 20.6% in 1998 and 18.1% in 1997. Comparable drugstores were up 19.4% in 1999, 15.6% in 1998 and 13.0% in 1997. Prescription sales were 52.4% of total sales for fiscal 1999 compared to 49.6% in 1998 and 47.1% in 1997. Pharmacy sales trends are expected to continue primarily because of expansion into new markets, increased penetration in existing markets, and demographic changes such as the aging population.

Gross margins as a percent of sales were 27.2% in 1999 and 1998, and 27.5% in 1997. Lower prescription gross margins were offset by higher margins in the rest of the store. Third party retail and mail order sales, the margins of which are under continued pressure from the reimbursement rates demanded by managed care organizations, continue to become a larger portion of pharmacy sales. The company is responding to these gross margin pressures by evaluating contracts with the organizations on a case-by-case basis to ensure a reasonable return to shareholders. These continuing efforts have successfully slowed the decline of third party prescription margins, however, sales volume may be sacrificed.

The company uses the last-in, first-out (LIFO) method of inventory valuation. The effective LIFO inflation rates were 1.84% in 1999, 2.15% in 1998 and .82% in 1997, which resulted in charges to cost of sales of $45.2 million in 1999, $46.5 million in 1998 and $16.5 million in 1997. Inflation on prescription inventory was 5.2% in 1999, 5.5% in 1998 and 1.9% in 1997.

Selling, occupancy and administration expenses were 21.6% of sales in fiscal 1999, 21.8% of sales in fiscal 1998 and 22.2% of sales in fiscal 1997. The decreases in fiscal 1999 and 1998, as a percent to sales, were caused by lower payroll, advertising and headquarters expenses.

Interest income increased in 1999 principally from higher investment levels. Average net investment levels were approximately $220 million in 1999, $72 million in 1998 and $79 million in 1997.

The effective tax rate increased to 39.25% this fiscal year compared to 38.75% in fiscal 1998 and fiscal 1997. The increase was principally the result of lower tax-advantaged investments.

Financial Condition

Cash and cash equivalents were $141.8 million at August 31, 1999, compared to $144.4 million at August 31, 1998. Short-term investment objectives are to maximize yields while minimizing risk and maintaining liquidity. To attain these objectives, investment limits are placed on the amount, type and issuer of securities.

Net cash provided by operating activities for fiscal 1999 was $625.2 million compared to $571.2 million a year ago. The company's profitability is the principal source for providing funds for expansion and remodeling programs, dividends to shareholders and funding for various technological improvements.

Net cash used for investing activities was $645.5 million in fiscal 1999 and $502.3 million in 1998. Additions to property and equipment were $696.3 million compared to $641.0 million last year. During the year, 386 new or relocated drugstores were opened. This compares to 304 new or relocated drugstores opened in the same period last year. New stores are owned or leased. There were 131 owned locations opened during the year or under construction at August 31, 1999 versus 136 for the same period last year. During fiscal 1998, the surrender of certain corporate-owned life insurance policies resulted in net proceeds of $58 million. Property and equipment disposition of $71.9 million in fiscal 1998 includes the proceeds from the sale of the company's 14 long-term care pharmacy facilities.

CAPITAL EXPENDITURES — FISCAL YEAR 2000
More than $1 billion to be spent

Capital expenditures for fiscal 2000 are budgeted to be over $1 billion. The company expects to open 450 new stores in fiscal 2000 and have a total of 6,000 drugstores by the year 2010. By the end of calendar 2000, stores will be added in four more states – Georgia, Maryland, Utah and Wyoming, bringing coverage to 43 states and Puerto Rico. Major upcoming markets are Atlanta, Baltimore and Southern California, where 200 full-size stores are planned by 2005. The company is continuing to relocate stores to more convenient and profitable freestanding locations. In addition to new stores, a significant portion of the expenditures will be made for technology and distribution centers. The company will launch a new full-service Internet pharmacy early in fiscal 2000 and plans to open or expand one distribution center a year for the next five years. This may necessitate future long-term borrowings.

Net cash provided by financing activities was $17.7 million compared to $2.6 million a year ago. At August 31, 1999, the company had approximately $81 million in unused bank lines of credit and $100 million of unissued authorized debt securities, previously filed with the Securities and Exchange Commission.

The company has been addressing computer software and hardware modifications or replacements to enable transactions to process properly in the year 2000. Included in the hardware review is an examination of critical non-IT systems, including embedded technology at company facilities. Left uncorrected, the "year 2000 problem" could result in business interruptions. However, based on currently available information, all necessary changes are expected to occur in a timely manner.

As part of the project, a detailed work plan was developed to identify key processes such as point-of-sale, pharmacy and inventory control. Each process was broken down into tasks which included analysis at the program level to identify date issues, modifications to programs where the date processing did not properly handle the year 2000 and testing to insure the process functions correctly in the year 2000. For many key processes such as pharmacy, inventory control, and financial systems, year 2000 simulations were executed by running year 2000-ready processes on non-production hardware while modifying the system date to simulate the year 2000. At August 31, 1999, it is estimated that 99% of the work plan activities have been completed and approximately 90% of the costs have been incurred. The total cost of these changes is expected to be approximately $9 million, which is based on management's best estimates and subject to change as additional information becomes available.

Although the company is working with suppliers and customers regarding this issue, no assurance can be given with respect to potential adverse effects on the company of any failure by other parties to achieve year 2000 compliance. The company is developing contingency plans that identify "risk points" within key business processes such as pharmacy and cash flow. For each "risk point" identified, the probability of failure is estimated and a contingency alternative solution identified. Although effort is being made to develop the best contingency alternative solutions, in some cases the alternative solution is not as optimal as the process it would replace. The goals of the contingency plans are to identify and document alternative solutions that could be implemented in the event of failure and would allow the company to continue to provide service to its customers and business partners. Plans will remain flexible and subject to change.

In March 1998, Statement of Position 98-1 "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use" was issued. This pronouncement, which is effective by the company's fiscal year 2000, provides guidance on the capitalization of costs related to internal use software. The pronouncement is expected to result in approximately $15 million of capitalized costs during fiscal year 2000 which would have been expensed under the company's prior policy.

Cautionary Note Regarding Forward-looking Statements

Certain statements and projections of future results made in this report constitute forward-looking information that is based on current market, competitive and regulatory expectations that involve risks and uncertainties. Those risks and uncertainties include changes in economic conditions generally or in the markets served by the company; consumer preferences and spending patterns; changes in state or federal legislation or regulations; the availability and cost of real estate and construction; competition; and risks of new business areas. Please see Walgreen Co.'s Form 10-K for the period ended August 31, 1999, for a discussion of certain other important factors as they relate to forward-looking statements. Actual results could differ materially.

BOSTON, MASSACHUSETTS

CONSOLIDATED STATEMENTS OF EARNINGS AND SHAREHOLDERS' EQUITY

Walgreen Co. and Subsidiaries for the Years Ended August 31, 1999, 1998 and 1997 (Dollars in Millions, except per share data)

	Earnings	1999	1998	1997
Net Sales		**$17,838.8**	**$15,306.6**	**$13,363.0**
Costs and Deductions	Cost of sales	**12,978.6**	**11,139.4**	**9,681.8**
	Selling, occupancy and administration	**3,844.8**	**3,332.0**	**2,972.5**
		16,823.4	**14,471.4**	**12,654.3**
Other (Income) Expense	Interest income	**(12.3)**	**(5.6)**	**(5.5)**
	Interest expense	**.4**	**1.1**	**1.6**
	Gain on sale of long-term care pharmacies	**–**	**(37.4)**	**–**
		(11.9)	**(41.9)**	**(3.9)**
Earnings	Earnings before income tax provision and cumulative effect of accounting change	**1,027.3**	**877.1**	**712.6**
	Income tax provision	**403.2**	**339.9**	**276.1**
	Earnings before cumulative effect of accounting change	**624.1**	**537.2**	**436.5**
	Cumulative effect of accounting change for system development costs	**–**	**(26.4)**	**–**
	Net Earnings	**$ 624.1**	**$ 510.8**	**$ 436.5**
Net Earnings per Common Share				
Basic	Earnings before cumulative effect of accounting change	**$ .62**	**$ .54**	**$ .44**
	Cumulative effect of accounting change for system development costs	**–**	**(.03)**	**–**
	Net Earnings	**$ .62**	**$ .51**	**$ .44**
Diluted	Earnings before cumulative effect of accounting change	**$ .62**	**$ .54**	**$ .44**
	Cumulative effect of accounting change for system development costs	**–**	**(.03)**	**–**
	Net Earnings	**$ .62**	**$ .51**	**$ .44**
	Average shares outstanding	**1,000,363,234**	**992,169,240**	**984,881,476**
	Dilutive effect of stock options	**13,918,481**	**13,523,672**	**11,787,614**
	Average shares outstanding assuming dilution	**1,014,281,715**	**1,005,692,912**	**996,669,090**

Shareholders' Equity	**Common Stock Shares**	**Common Stock Amount**	**Paid-in Capital**	**Retained Earnings**
Balance, August 31, 1996	**984,564,288**	**$76.9**	**$ –**	**$1,966.2**
Net earnings	**–**	**–**	**–**	**436.5**
Cash dividends declared ($.12 per share)	**–**	**–**	**–**	**(118.3)**
Employee stock purchase and option plans	**3,015,644**	**.3**	**29.8**	**(18.1)**
Balance, August 31, 1997	**987,579,932**	**77.2**	**29.8**	**2,266.3**
Net earnings	**–**	**–**	**–**	**510.8**
Cash dividends declared ($.125 per share)	**–**	**–**	**–**	**(124.1)**
Employee stock purchase and option plans	**8,907,112**	**.6**	**88.3**	**–**
Balance, August 31, 1998	**996,487,044**	**77.8**	**118.1**	**2,653.0**
Net earnings	**–**	**–**	**–**	**624.1**
Cash dividends declared ($.13 per share)	**–**	**–**	**–**	**(130.1)**
Employee stock purchase and option plans	**7,535,214**	**.6**	**140.8**	**–**
Balance, August 31, 1999	**1,004,022,258**	**$78.4**	**$258.9**	**$3,147.0**

The accompanying Statement of Major Accounting Policies and the Notes to Consolidated Financial Statements are integral parts of these statements.

CONSOLIDATED BALANCE SHEETS

Walgreen Co. and Subsidiaries at August 31, 1999 and 1998 (Dollars in Millions)

	Assets	*1999*	*1998*
Current Assets	Cash and cash equivalents	$ 141.8	$ 144.4
	Accounts receivable, net	486.5	373.2
	Inventories	2,462.6	2,026.9
	Other current assets	130.8	78.6
	Total Current Assets	3,221.7	2,623.1
Non-Current Assets	Property and equipment, at cost, less accumulated depreciation and amortization	2,593.9	2,143.4
	Other non-current assets	91.1	135.1
	Total Assets	$5,906.7	$4,901.6

	Liabilities and Shareholders' Equity		
Current Liabilities	Trade accounts payable	$1,130.3	$ 906.9
	Accrued expenses and other liabilities	730.1	618.4
	Income taxes	63.4	54.8
	Total Current Liabilities	1,923.8	1,580.1
Non-Current Liabilities	Deferred income taxes	74.8	89.1
	Other non-current liabilities	423.8	383.5
	Total Non-Current Liabilities	498.6	472.6
Shareholders' Equity	Preferred stock, $.0625 par value; authorized 32 million shares; none issued	–	–
	Common stock, $.078125 par value; authorized 3.2 billion shares; issued and outstanding 1,004,022,258 in 1999 and 996,487,044 in 1998	78.4	77.8
	Paid-in capital	258.9	118.1
	Retained earnings	3,147.0	2,653.0
	Total Shareholders' Equity	3,484.3	2,848.9
	Total Liabilities and Shareholders' Equity	$5,906.7	$4,901.6

The accompanying Statement of Major Accounting Policies and the Notes to Consolidated Financial Statements are integral parts of these statements.

FRANKFORT, ILLINOIS

CONSOLIDATED STATEMENTS OF CASH FLOWS

Walgreen Co. and Subsidiaries for the Years Ended August 31, 1999, 1998 and 1997 (In Millions)

Fiscal Year		*1999*	*1998*	*1997*
Cash Flows from Operating Activities	Net earnings	**$ 624.1**	**$ 510.8**	**$ 436.5**
	Adjustments to reconcile net earnings to net cash provided by operating activities –			
	Cumulative effect of accounting change for system development costs	**–**	**26.4**	**–**
	Depreciation and amortization	**210.1**	**189.6**	**163.9**
	Deferred income taxes	**(9.4)**	**(.8)**	**7.5**
	Gain on sale of long-term care pharmacies	**–**	**(37.4)**	**–**
	Other	**12.2**	**28.7**	**7.8**
	Changes in operating assets and liabilities –			
	Inventories	**(435.7)**	**(298.8)**	**(100.8)**
	Trade accounts payable	**223.4**	**94.2**	**120.9**
	Accounts receivable, net	**(106.0)**	**(19.7)**	**(74.6)**
	Accrued expenses and other liabilities	**103.7**	**99.3**	**73.4**
	Income taxes	**8.6**	**(17.2)**	**12.3**
	Other	**(5.8)**	**(3.9)**	**3.4**
	Net cash provided by operating activities	**625.2**	**571.2**	**650.3**
Cash Flows from Investing Activities	Additions to property and equipment	**(696.3)**	**(641.0)**	**(485.1)**
	Disposition of property and equipment	**41.7**	**71.9**	**15.2**
	Net borrowing from (investment in) corporate-owned life insurance	**9.1**	**8.8**	**(16.2)**
	Proceeds from the surrender of corporate-owned life insurance	**–**	**58.0**	**–**
	Net cash used for investing activities	**(645.5)**	**(502.3)**	**(486.1)**
Cash Flows from Financing Activities	Proceeds from employee stock plans	**131.8**	**105.1**	**16.9**
	Cash dividends paid	**(128.6)**	**(122.6)**	**(115.7)**
	Other	**14.5**	**20.1**	**(1.3)**
	Net cash provided by (used for) financing activities	**17.7**	**2.6**	**(100.1)**
Changes in Cash and Cash Equivalents	Net (decrease) increase in cash and cash equivalents	**(2.6)**	**71.5**	**64.1**
	Cash and cash equivalents at beginning of year	**144.4**	**72.9**	**8.8**
	Cash and cash equivalents at end of year	**$ 141.8**	**$ 144.4**	**$ 72.9**

The accompanying Statement of Major Accounting Policies and the Notes to Consolidated Financial Statements are integral parts of these statements.

CHICAGO, ILLINOIS

STATEMENT OF MAJOR ACCOUNTING POLICIES

Description of Business

The company is principally in the retail drugstore business. Stores are located in 39 states and Puerto Rico. At August 31, 1999, there were 2,819 retail drugstores and two mail service facilities. Prescription sales were 52.4% of total sales for fiscal 1999 compared to 49.6% in 1998 and 47.1% in 1997.

In June 1997, the Financial Accounting Standards Board issued SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information," which establishes annual and interim reporting standards for an enterprise's operating segments and related disclosures about its products, services, geographic areas and major customers. The company's operations are within one reportable segment.

Accounting Change

In accordance with the EITF (Emerging Issues Task Force) consensus reached on November 20, 1997, the company was required to change its accounting for business process reengineering costs. EITF 97-13, "Accounting for Costs Incurred in Connection with a Consulting Contract or an Internal Project that Combines Business Process Reengineering and Information Technology Transformation," requires that the cost of business process reengineering activities that are part of a project to acquire, develop or implement internal use software, whether done internally or by third parties, be expensed as incurred. Previously, the company capitalized these costs as systems development costs. The change, effective as of September 1, 1997, resulted in a cumulative pre-tax charge of $43.1 million, or $.03 per share, recorded in the quarter ended November 30, 1997. No restatement of prior years' financial statements was required. Except for the cumulative effect of the accounting change, the effect of this change was not material.

Basis of Presentation

The consolidated statements include the accounts of the company and its subsidiaries. All significant intercompany transactions have been eliminated. The financial statements are prepared in accordance with generally accepted accounting principles and include amounts based on management's prudent judgments and estimates. Actual results may differ from these estimates.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand and all highly liquid investments with an original maturity of three months or less. The company's cash management policy provides for the bank disbursement accounts to be reimbursed on a daily basis. Checks issued but not presented to the banks for payment of $191 million and $148 million at August 31, 1999 and 1998, respectively, are included in cash and cash equivalents as reductions of other cash balances.

Financial Instruments

The company had approximately $57 million and $53 million of outstanding letters of credit at August 31, 1999 and 1998, respectively, which guaranteed foreign trade purchases. Additional outstanding letters of credit of $43 million and $41 million at August 31, 1999 and 1998, respectively, guaranteed payments of casualty claims. The casualty claim letters of credit are annually renewable and will remain in place until the casualty claims are paid in full. The company pays a nominal facility fee to the financing bank to keep this line of credit facility active. The company also had purchase commitments of approximately $342 million and $242 million at August 31, 1999 and 1998, respectively, related to the purchase of store locations. There were no investments in derivative financial instruments during fiscal 1999 and 1998.

Inventories

Inventories are valued on a lower of last-in, first-out (LIFO) cost or market basis. At August 31, 1999 and 1998, inventories would have been greater by $536.0 million and $490.8 million, respectively, if they had been valued on a lower of first-in, first-out (FIFO) cost or market basis. Cost of sales is primarily derived from an estimate based upon point-of-sale scanning information and adjusted based on periodic inventories.

Property and Equipment

Depreciation is provided on a straight-line basis over the estimated useful lives of owned assets. Leasehold improvements and leased properties under capital leases are amortized over the estimated physical life of the property or over the term of the lease, whichever is shorter. Estimated useful lives range from 12½ to 39 years for land improvements, buildings and building improvements and 5 to 12½ years for equipment. Major repairs, which extend the useful life of an asset, are capitalized in the property and equipment accounts. Routine maintenance and repairs are charged against earnings. The composite method of depreciation is used for equipment; therefore, gains and losses on retirement or other disposition of such assets are included in earnings only when an operating location is closed, completely remodeled or impaired resulting in the carrying amount not being recoverable. Impaired amounts are measured by comparing the present value of the estimated future cash flows to the carrying value of the assets. Fully depreciated property and equipment are removed from the cost and related accumulated depreciation and amortization accounts.

Property and equipment consists of *(In Millions)*:

	1999	1998
Land and land improvements		
Owned stores	$ 513.7	$ 359.6
Distribution centers	21.1	20.9
Other locations	12.2	9.1
Buildings and building improvements		
Owned stores	564.2	403.5
Leased stores (leasehold improvements only)	366.3	345.8
Distribution centers	171.3	159.0
Other locations	48.8	45.3
Equipment		
Stores	1,068.6	907.6
Distribution centers	214.3	187.5
Other locations	390.0	383.9
Capitalized system development costs	79.4	123.3
Capital lease properties	22.8	14.6
	3,472.7	2,960.1
Less: accumulated depreciation and amortization	878.8	816.7
	$2,593.9	$2,143.4

HOUSTON, TEXAS

STATEMENT OF MAJOR ACCOUNTING POLICIES

(continued)

The company capitalizes costs which primarily relate to the application development stage of significant internally developed software. These costs principally relate to Intercom Plus, a pharmacy computer and work-flow system. These costs are amortized over a five-year period as phases of these various systems are implemented. Amortization of these costs were $15.6 million in 1999, $13.0 million in 1998 and $13.9 million in 1997. Unamortized costs as of August 31, 1999 and 1998, were $51.3 million and $53.1 million, respectively.

Income Taxes

The company provides for federal and state income taxes on items included in the Consolidated Statements of Earnings regardless of the period when such taxes are payable. Deferred taxes are recognized for temporary differences between financial and income tax reporting based on enacted tax laws and rates.

Insurance

The company obtains insurance coverage for catastrophic exposures as well as those risks required to be insured by law. It is the company's policy to retain a significant portion of certain losses related to worker's compensation, property losses, business interruptions relating from such losses and comprehensive general, pharmacist and vehicle liability. Provisions for these losses are recorded based upon the company's estimates for claims incurred. Such estimates utilize certain assumptions followed in the insurance industry.

Pre-Opening Expenses

Non-capital expenditures incurred prior to the opening of a new or remodeled store are charged against earnings when they are incurred.

Advertising Costs

Advertising costs are expensed as incurred, and were $58.7 million in 1999, $59.7 million in 1998 and $67.9 million in 1997.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Interest Expense

The company capitalized $2.6 million, $1.6 million and $.4 million of interest expense as part of significant construction projects during fiscal 1999, 1998 and 1997. Interest paid, net of amounts capitalized, was $.4 million in 1999, $.8 million in 1998 and $1.6 million in 1997.

Gain on Sale of Long-Term Care Pharmacies

In June 1998, the company completed the sale of its long-term care pharmacy business for a pre-tax gain of $37.4 million ($22.9 million after-tax or $.02 per share). The 14 units generated revenues of approximately $40 million a year.

Leases

Although some locations are owned, the company generally operates in leased premises. Original non-cancelable lease terms typically are 20 years and may contain escalation clauses, along with options that permit renewals for additional periods. The total amount of the minimum rent is expensed on a straight-line basis over the term of the lease. In addition to minimum fixed rentals, most leases provide for contingent rentals based upon sales.

Minimum rental commitments at August 31, 1999, under all leases having an initial or remaining non-cancelable term of more than one year are shown below *(In Millions)*:

Year	
2000	**$ 528.8**
2001	**567.0**
2002	**553.6**
2003	**540.1**
2004	**528.2**
Later	**5,941.4**
Total minimum lease payments	**$8,659.1**

The above minimum lease payments include minimum rental commitments related to capital leases amounting to $19.5 million at August 31, 1999. The present value of net minimum capital lease payments, due after 2000, are reflected in the accompanying Consolidated Balance Sheets as part of other non-current liabilities. Total minimum lease payments have not been reduced by minimum sublease rentals of approximately $26.8 million on leases due in the future under non-cancelable subleases.

Rental expense was as follows *(In Millions)*:

	1999	*1998*	*1997*
Minimum rentals	**$482.0**	**$405.8**	**$356.8**
Contingent rentals	**34.8**	**35.2**	**35.6**
Less: Sublease rental income	**(5.4)**	**(3.7)**	**(3.0)**
	$511.4	**$437.3**	**$389.4**

Income Taxes

The provision for income taxes consists of the following *(In Millions)*:

	1999	*1998*	*1997*
Current provision – Federal	**$350.5**	**$290.2**	**$228.1**
– State	**62.1**	**50.5**	**40.5**
	412.6	**340.7**	**268.6**
Deferred provision – Federal	**(8.0)**	**(2.2)**	**6.6**
– State	**(1.4)**	**1.4**	**.9**
	(9.4)	**(.8)**	**7.5**
	$403.2	**$339.9**	**$276.1**

The components of the deferred provision were *(In Millions)*:

	1999	*1998*	*1997*
Employee benefit plans	**$(12.2)**	**$(10.4)**	**$(13.8)**
Inventory	**11.1**	**(2.6)**	**21.7**
Accelerated depreciation	**9.7**	**22.2**	**9.1**
Other	**(18.0)**	**(10.0)**	**(9.5)**
	$ (9.4)	**$ (.8)**	**$ 7.5**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(continued)

The deferred tax assets and liabilities included in the Consolidated Balance Sheets consist of the following *(In Millions)*:

	1999	1998
Deferred tax assets –		
Employee benefit plans	**$117.8**	**$105.6**
Accrued rent	**49.7**	**41.0**
Insurance	**41.6**	**38.8**
Inventory	**17.6**	**16.0**
Other	**42.4**	**43.5**
	269.1	**244.9**
Deferred tax liabilities –		
Accelerated depreciation	**240.5**	**230.8**
Inventory	**66.0**	**53.4**
Other	**11.0**	**18.4**
	317.5	**302.6**
Net deferred tax liabilities	**$ 48.4**	**$ 57.7**

Income taxes paid were $377.3 million, $332.8 million and $243.1 million during the fiscal years ended August 31, 1999, 1998 and 1997, respectively. The difference between the statutory income tax rate and the effective tax rate is principally due to state income tax provisions.

Short-Term Borrowings

The company obtained funds through the placement of commercial paper, as follows *(Dollars in Millions)*:

	1999	1998	1997
Average outstanding during the year	**$ 9.6**	**$17.8**	**$ 8.0**
Largest month-end balance	**100.0**	**50.0**	**42.0**
	(Nov)	*(Oct)*	*(Sept)*
Weighted-average interest rate	**5.1%**	**5.7%**	**5.4%**

There were no short-term borrowings at August 31, 1999 or August 31, 1998. At August 31, 1999 the company had approximately $81 million of available bank lines of credit. The credit lines are renewable annually at various dates and provide for loans of varying maturities at the prime rate. There are no compensating balance arrangements.

Contingencies

The company is involved in various legal proceedings incidental to the normal course of business. Company management is of the opinion, based upon the advice of General Counsel, that although the outcome of such litigation cannot be forecast with certainty, the final disposition should not have a material adverse effect on the company's consolidated financial position or results of operations.

Capital Stock

All share data have been adjusted to reflect a two-for-one stock split distributed to shareholders February 12, 1999. In addition, the Board of Directors approved increases in the authorized common stock, from 1.6 billion shares to 3.2 billion shares, and in the authorized preferred stock, from 16 million shares to 32 million shares.

The company's common stock is subject to a Rights Agreement under which each share has attached to it a Right to purchase one one-hundredth of a share of a new series of Preferred Stock, at a price of $37.50 per Right. In the event an entity acquires or attempts to acquire 15% of the then outstanding shares, each Right, except those of an acquiring entity, would entitle the holder to purchase a number of shares of common stock pursuant to a formula contained in the Agreement. These non-voting Rights will expire on August 21, 2006, but may be redeemed at a price of $.0025 per Right at any time prior to a public announcement that the above event has occurred.

As of August 31, 1999, 107,124,410 shares of common stock were reserved for future stock issuances under the company's employee stock purchase, option and award plans. Preferred stock of 10,040,223 shares have been reserved for issuance upon the exercise of Preferred Share Purchase Rights.

Stock Compensation Plans

The Walgreen Co. Executive Stock Option Plan provides for the granting to key employees of options to purchase company common stock over a 10-year period, at a price not less than the fair market value on the date of the grant. Under this Plan, options may be granted until October 9, 2006, for an aggregate of 38,400,000 shares of common stock of the company. The options granted during fiscal 1999, 1998 and 1997 have a minimum three-year holding period.

The Walgreen Co. Stock Purchase/Option Plan (Share Walgreens) provides for the granting of options to purchase company common stock over a period of 10 years to eligible employees upon the purchase of company shares subject to certain restrictions. Under the terms of the Plan, the option price cannot be less than 85% of the fair market value at the date of grant. Compensation expense related to the Plan was less than $1 million in fiscal 1999, 1998 and 1997. Options may be granted under this Plan until September 30, 2002, for an aggregate of 40,000,000 shares of common stock of the company. The options granted during fiscal 1999, 1998 and 1997 have a two-year holding period.

A summary of information relative to the company's stock option plans follows:

	Options Outstanding		Options Exercisable	
	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
August 31, 1996	**28,907,216**	**$ 4.25**		
Granted	**9,413,872**	**8.99**		
Exercised	**(4,467,984)**	**3.13**		
Canceled/Forfeited	**(287,272)**	**6.50**		
August 31, 1997	**33,565,832**	**$ 5.70**	**19,749,884**	**$4.33**
Granted	**1,972,162**	**14.02**		
Exercised	**(5,667,682)**	**3.78**		
Canceled/Forfeited	**(264,356)**	**8.54**		
August 31, 1998	**29,605,956**	**$ 6.59**	**18,255,338**	**$4.62**
Granted	**2,606,350**	**19.70**		
Exercised	**(3,644,250)**	**5.71**		
Canceled/Forfeited	**(88,818)**	**9.81**		
August 31, 1999	**28,479,238**	**$ 7.89**	**21,821,426**	**$5.91**

MEMPHIS, TENNESSEE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(continued)

The following table summarizes information concerning currently outstanding and exercisable options:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding at 8/31/99	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number Exercisable at 8/31/99	Weighted-Average Exercise Price
$ 1 to 5	**15,359,092**	**3.77 yrs.**	**$ 4.61**	**15,359,092**	**$ 4.61**
6 to 13	**10,124,404**	**7.22**	**9.54**	**6,460,112**	**8.99**
14 to 32	**2,995,742**	**8.95**	**19.15**	**2,222**	**19.44**
$ 1 to 32	**28,479,238**	**5.54 yrs.**	**$ 7.89**	**21,821,426**	**$ 5.91**

Under the Walgreen Co. 1982 Employees Stock Purchase Plan, eligible employees may purchase company stock at 90% of the fair market value at the date of purchase. Employees may purchase shares through cash purchases, loans or payroll deductions up to certain limits. The aggregate number of shares for which all participants have the right to purchase under this Plan is 64,000,000.

The Walgreen Co. Restricted Performance Share Plan provides for the granting of up to 32,000,000 shares of common stock to certain key employees, subject to restrictions as to continuous employment except in the case of death, normal retirement and total and permanent disability. Restrictions generally lapse over a four-year period from the date of grant. Compensation expense is recognized in the year of grant. Compensation expense related to the Plan was $3.7 million in fiscal 1999, $4.6 million in fiscal 1998 and $4.9 million in fiscal 1997. The number of shares granted was 95,038 in 1999, 130,350 in 1998 and 217,352 in 1997.

The company applies Accounting Principles Board (APB) Opinion No. 25 and related Interpretations in accounting for its plans. Accordingly, no compensation expense has been recognized based on the fair value of its grants under these plans. Had compensation costs been determined consistent with the method of FASB Statement No. 123 for options granted in fiscal 1999, 1998 and 1997, pro forma net earnings and net earnings per common share would have been as follows *(In Millions, except per share data)*:

	1999	1998	1997
Net earnings			
As reported	**$624.1**	**$510.8**	**$436.5**
Pro forma	**605.3**	**497.2**	**422.6**
Net earnings per common share – Basic			
As reported	**.62**	**.51**	**.44**
Pro forma	**.61**	**.50**	**.43**
Net earnings per common share – Diluted			
As reported	**.62**	**.51**	**.44**
Pro forma	**.60**	**.50**	**.43**

The weighted-average fair value and exercise price of options granted for fiscal 1999, 1998 and 1997 were as follows:

	1999	1998	1997
Granted at market price –			
Weighted-average fair value	**$ 6.99**	**$ 5.27**	**$3.33**
Weighted-average exercise price	**19.61**	**14.08**	**8.26**
Granted below market price –			
Weighted-average fair value	**9.45**	**4.81**	**3.48**
Weighted-average exercise price	**20.89**	**13.83**	**9.20**

The fair value of each option grant used in the pro forma net earnings and net earnings per share was determined using the Black-Scholes option pricing model with weighted-average assumptions used for grants in fiscal 1999, 1998 and 1997:

	1999	1998	1997
Risk-free interest rate	**5.11%**	**6.19%**	**6.29%**
Average life of option (years)	**7**	**7**	**6**
Volatility	**21.78%**	**20.39%**	**20.00%**
Dividend yield	**.32%**	**.53%**	**1.07%**

Retirement Benefits

The principal retirement plan for employees is the Walgreen Profit-Sharing Retirement Trust to which both the company and the employees contribute. The company's contribution, which is determined annually at the discretion of the Board of Directors, has historically related to pretax income. The profit-sharing provision was $91.4 million in 1999, $78.7 million in 1998 and $59.3 million in 1997.

The company provides certain health and life insurance benefits for retired employees who meet eligibility requirements, including age and years of service. The costs of these benefits are accrued over the period earned. At August 31, 1999, the unrecognized actuarial gain was $.7 million compared to an $8.4 million loss at August 31, 1998. The company's postretirement health and life benefit plans currently are not funded.

Components of net periodic benefit costs *(In Millions)*:

	1999	1998	1997
Service cost	**$ 5.2**	**$ 4.3**	**$ 3.8**
Interest cost	**7.3**	**6.8**	**6.2**
Amortization of actuarial loss	**.4**	**–**	**–**
Total postretirement healthcare benefits costs	**$12.9**	**$11.1**	**$10.0**

Change in benefit obligation *(In Millions)*:

	1999	1998
Benefit obligation at September 1	**$105.6**	**$ 88.9**
Service cost	**5.2**	**4.3**
Interest cost	**7.3**	**6.8**
Actuarial (gain) loss	**(9.9)**	**8.8**
Benefit payments	**(4.4)**	**(3.9)**
Participants contributions	**.8**	**.7**
Benefit obligation at August 31	**$104.6**	**$105.6**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(continued)

The discount rate assumptions used to compute the postretirement benefit obligation at year-end were 7.5% for 1999 and 7% for 1998.

Future benefit costs were estimated assuming medical costs would increase at a 6.5% annual rate decreasing to 5% over the next 5 years and then remaining at a 5% annual growth rate thereafter. A one percentage point change in the assumed medical cost trend rate would have the following effects *(In Millions)*:

	1% Increase	*1% Decrease*
Effect on service and interest cost	**$ 3.2**	**$ (2.5)**
Effect on postretirement obligation	**20.9**	**(17.9)**

Supplementary Financial Information

Included in the Consolidated Balance Sheets captions are the following assets and liabilities *(In Millions)*:

	1999	*1998*
Accounts receivable –		
Accounts receivable	**$495.5**	**$384.4**
Allowances for doubtful accounts	**(9.0)**	**(11.2)**
	$486.5	**$373.2**
Accrued expenses and other liabilities –		
Accrued salaries	**$239.4**	**$195.7**
Taxes other than income taxes	**104.1**	**84.7**
Profit sharing	**89.5**	**99.1**
Other	**297.1**	**238.9**
	$730.1	**$618.4**

Summary of Quarterly Results *(Unaudited)*

(Dollars in Millions, except per share data)

		Quarter Ended				
		November	*February*	*May*	*August*	*Fiscal Year*
Fiscal 1999	Net sales	**$4,016.4**	**$4,691.0**	**$4,571.4**	**$4,560.0**	**$17,838.8**
	Gross profit	**1,074.7**	**1,298.6**	**1,240.7**	**1,246.2**	**4,860.2**
	Net earnings	**104.0**	**200.2**	**159.3**	**160.6**	**624.1**
	Per Common Share – Basic	**$ .10**	**$ .20**	**$ .16**	**$ .16**	**$ .62**
	Per Common Share – Diluted	**.10**	**.20**	**.16**	**.16**	**.62**
Fiscal 1998	Net sales	**$3,485.2**	**$4,093.4**	**$3,887.5**	**$3,840.5**	**$15,306.6**
	Gross profit	**944.2**	**1,132.7**	**1,046.7**	**1,043.6**	**4,167.2**
	Earnings before cumulative effect of accounting change	**87.7**	**170.9**	**125.9**	**152.7**	**537.2**
	Net earnings	**61.3**	**170.9**	**125.9**	**152.7**	**510.8**
	Per Common Share – Basic					
	Earnings before cumulative effect of accounting change	**$ .09**	**$ .17**	**$ .13**	**$ .15**	**$ .54**
	Net earnings	**.06**	**.17**	**.13**	**.15**	**.51**
	Per Common Share – Diluted					
	Earnings before cumulative effect of accounting change	**.09**	**.17**	**.13**	**.15**	**.54**
	Net earnings	**.06**	**.17**	**.13**	**.15**	**.51**

Comments on Quarterly Results: In further explanation of and supplemental to the quarterly results, the 1999 fourth quarter LIFO adjustment was a credit of $.7 million compared to a 1998 charge of $14.1 million. If the 1999 interim results were adjusted to reflect the actual inventory inflation rates and inventory levels as computed at August 31, 1999, earnings per share would have been higher in the second quarter by $.01, and lower in the fourth quarter by $.01.

The quarter ended August 31, 1998, includes the pre-tax gain of $37.4 million ($22.9 million after-tax or $.02 per share) from the sale of the company's long-term care pharmacy business.

Common Stock Prices

Below are the New York Stock Exchange high and low for each quarter of fiscal 1999 and 1998.

		Quarter Ended				
		November	*February*	*May*	*August*	*Fiscal Year*
Fiscal 1999	High	**$ $27\frac{3}{8}$**	**$ $33\frac{1}{16}$**	**$ $30\frac{15}{16}$**	**$ $29\frac{7}{8}$**	**$ $33\frac{1}{16}$**
	Low	**$20\frac{3}{8}$**	**$26\frac{5}{16}$**	**$23\frac{1}{4}$**	**$23\frac{3}{16}$**	**$20\frac{3}{8}$**
Fiscal 1998	High	**$ $16\frac{3}{8}$**	**$ $18\frac{9}{16}$**	**$ $18\frac{9}{32}$**	**$ $24\frac{15}{32}$**	**$ $24\frac{15}{32}$**
	Low	**$12\frac{13}{16}$**	**$14\frac{1}{8}$**	**$16\frac{7}{16}$**	**$18\frac{3}{32}$**	**$12\frac{13}{16}$**

SAN FRANCISCO, CALIFORNIA

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Board of Directors and Shareholders of Walgreen Co.:
We have audited the accompanying consolidated balance sheets of Walgreen Co. (an Illinois corporation) and Subsidiaries as of August 31, 1999 and 1998, and the related consolidated statements of earnings, shareholders' equity and cash flows for each of the three years in the period ended August 31, 1999. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Walgreen Co. and Subsidiaries as of August 31, 1999 and 1998 and the results of their operations and their cash flows for each of the three years in the period ended August 31, 1999 in conformity with generally accepted accounting principles.

Arthur Andersen LLP

Chicago, Illinois,
September 27, 1999

MANAGEMENT'S REPORT

The primary responsibility for the integrity and objectivity of the consolidated financial statements and related financial data rests with the management of Walgreen Co. The financial statements were prepared in conformity with generally accepted accounting principles appropriate in the circumstances and included amounts that were based on management's most prudent judgments and estimates relating to matters not concluded by fiscal year-end. Management believes that all material uncertainties have been either appropriately accounted for or disclosed. All other financial information included in this annual report is consistent with the financial statements.

The firm of Arthur Andersen LLP, independent public accountants, was engaged to render a professional opinion on Walgreen Co.'s consolidated financial statements. Their report contains an opinion based on their audit, which was made in accordance with generally accepted auditing standards and procedures, which they believed were sufficient to provide reasonable assurance that the consolidated financial statements, considered in their entirety, are not misleading and do not contain material errors.

Three outside members of the Board of Directors constitute the company's Audit Committee, which meets at least quarterly and is responsible for reviewing and monitoring the company's financial and accounting practices. Arthur Andersen LLP and the company's General Auditor meet alone with the Audit Committee, which also meets with the company's management to discuss financial matters, auditing and internal accounting controls.

The company's systems are designed to provide an effective system of internal accounting controls to obtain reasonable assurance at reasonable cost that assets are safeguarded from material loss or unauthorized use and transactions are executed in accordance with management's authorization and properly recorded. To this end, management maintains an internal control environment which is shaped by established operating policies and procedures, an appropriate division of responsibility at all organizational levels, and a corporate ethics policy which is monitored annually. The company also has an Internal Control Evaluation Committee, composed primarily of senior management from the Accounting and Auditing Departments, which oversees the evaluation of internal controls on a company-wide basis. Management believes it has appropriately responded to the internal auditors' and independent public accountants' recommendations concerning the company's internal control system.

L. D. Jorndt
Chairman of the Board
and Chief Executive Officer

W. M. Rudolphsen
Controller
and Chief Accounting Officer

R. L. Polark
Senior Vice President
and Chief Financial Officer

HEALTHCARE PLUS, TEMPE, ARIZONA

BOARD OF DIRECTORS

Directors

L. Daniel Jorndt
Chairman and Chief Executive Officer
Elected 1990

David W. Bernauer
President and Chief Operating Officer
Elected 1999

Vernon A. Brunner
Executive Vice President – Marketing
Joined 1999

William C. Foote
Chairman of the Board,
Chief Executive Officer
and President,
USG Corporation
Elected 1997

James J. Howard
Chairman of the Board,
Chief Executive Officer
and President,
Northern States Power Company
Elected 1986

Charles D. Hunter*
Former Vice Chairman
and Chief Financial Officer
Elected 1974

Alan G. McNally
Chairman and Chief
Executive Officer,
Harris Bankcorp Inc.
Elected 1999

Cordell Reed
Former Senior Vice President,
Commonwealth Edison Co.
Elected 1994

David Y. Schwartz**
Former Partner,
Arthur Andersen LLP

John B. Schwemm
Former Chairman and
Chief Executive Officer,
R.R. Donnelley & Sons Co.
Elected 1985

William H. Springer*
Former Vice Chairman,
Ameritech Corporation
Elected 1988

Marilou M. von Ferstel
Former Executive Vice President
and General Manager,
Ogilvy Adams & Rinehart
Elected 1987

Charles R. Walgreen III
Chairman Emeritus
Elected 1963

Committees

Executive Committee
L. Daniel Jorndt,
Chairman
David W. Bernauer
Vernon A. Brunner
Charles D. Hunter
Cordell Reed
John B. Schwemm
William H. Springer

Audit Committee
John B. Schwemm,
Chairman
William C. Foote
Marilou M. von Ferstel

Compensation Committee
William H. Springer,
Chairman
James J. Howard
John B. Schwemm

Finance Committee
Charles D. Hunter,
Chairman
David W. Bernauer
L. Daniel Jorndt
Alan G. McNally
Cordell Reed
Charles R. Walgreen III

Nominating and Governance Committee
William C. Foote,
Chairman
James J. Howard
John B. Schwemm
Marilou M. von Ferstel

* *Retiring in January 2000.*
** *Standing for election in January 2000.*

OFFICERS

Corporate

Chairman
L. Daniel Jorndt
Chief Executive Officer

President
David W. Bernauer
Chief Operating Officer

Executive Vice Presidents
Vernon A. Brunner
Marketing
Jerome B. Karlin
Store Operations

Senior Vice Presidents
Robert C. Atlas
Western Store Operations
W. Lynn Earnest
Central Store Operations
George C. Eilers
Eastern Store Operations
Roger L. Polark
Chief Financial Officer
John A. Rubino
Human Resources
William A. Shiel
Facilities Development

Vice Presidents
Robert R. Halaska
President,
Walgreens Health Initiatives
J. Randolph Lewis
Distribution & Logistics
Julian A. Oettinger
General Counsel,
Corporate Secretary
Jeffrey A. Rein
Treasurer

Assistant Secretaries
Nancy J. Godfrey
Dana I. Green
Margarita E. Kellen
Edward H. King
Allan M. Resnick

Assistant Treasurers
Rick J. Hans
Robert E. Kahng

Operational, Marketing and Divisional

Store Operations Vice Presidents
Enrique F. Anglade
R. Bruce Bryant
James F. Cnota
Patrick E. Hanifen
Don R. Holman
Barry L. Markl
Robert G. McKillop
Richard Robinson
Bill J. Vernon
Mark A. Wagner
Kevin P. Walgreen
Gregory D. Wasson
Christine D. Whelan
Edward E. Williams
Bruce C. Zarkowsky

Marketing Vice Presidents
Mark R. Paul
Purchasing/Merchandising
Robert E. Sgarlata
Purchasing/Merchandising

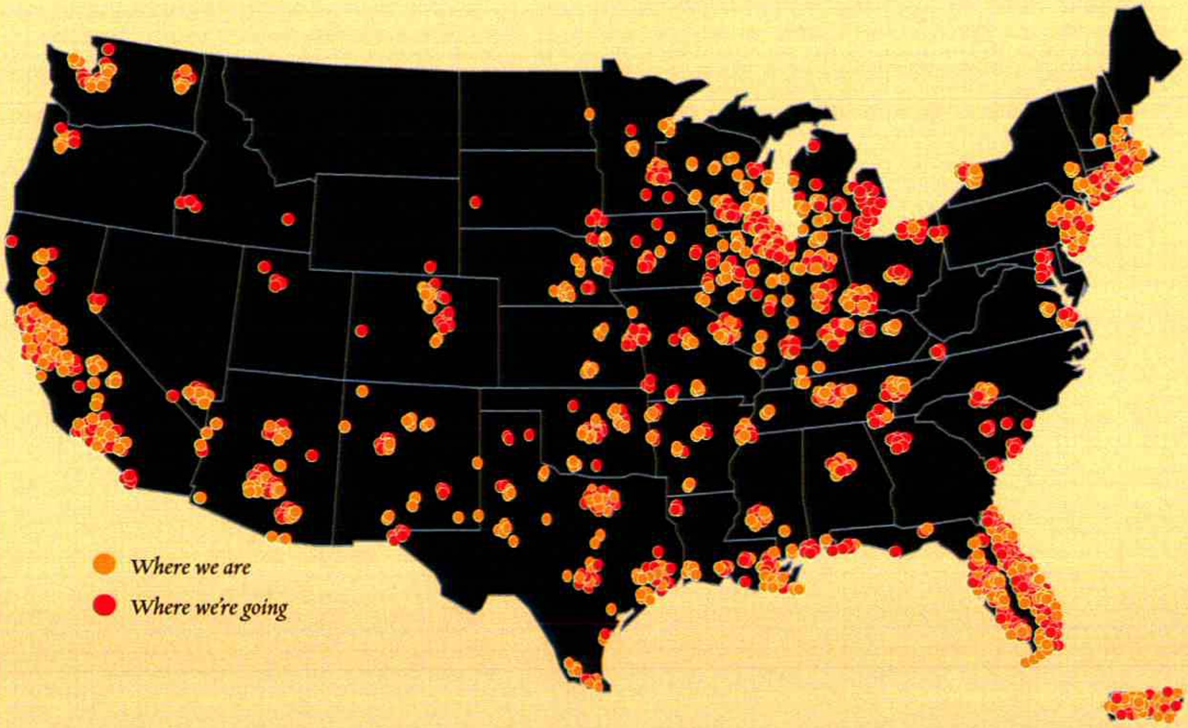
Divisional Vice Presidents
John W. Gleeson
Marketing Systems
and Services
Dana I. Green
Employee Relations
Dennis R. O'Dell
Health Services
Allan M. Resnick
Law
William M. Rudolphsen
Controller
Craig M. Sinclair
Advertising
Trent E. Taylor
Chief Information Officer
Chester G. Young
General Auditor

SIMPLY EVERYWHERE

STATE	1998	1999
Alabama	1	5
Arizona	137	144
Arkansas	9	12
California	196	212
Colorado	53	55
Connecticut	32	31
Florida	412	442
Idaho	0	1
Illinois	345	371
Indiana	103	106
Iowa	33	36
Kansas	20	22
Kentucky	39	40
Louisiana	55	61
Massachusetts	73	76
Michigan	40	61
Minnesota	64	67
Mississippi	7	13
Missouri	82	93
Nebraska	30	33
Nevada	16	28
New Hampshire	9	10
New Jersey	40	41
New Mexico	40	40
New York	34	41
North Carolina	0	5
North Dakota	1	1
Ohio	76	82
Oklahoma	26	30
Oregon	12	13
Pennsylvania	7	10
Rhode Island	14	15
South Carolina	0	2
South Dakota	0	2
Tennessee	85	96
Texas	261	304
Virginia	12	19
Washington	22	26
Wisconsin	119	128
Puerto Rico	44	47
TOTAL	2,549	2,821

Information as of fiscal year-end.

With nearly a century of business behind us, we're the oldest drug chain in America... but our stores are the youngest. Today, our average store is younger than seven years, and that will drop to five and a half by our centennial in 2001.



FIRST WALGREENS STORE, CHICAGO, ILLINOIS, 1901

DRUGSTORE UNIT AND SALES OVERVIEW

Fiscal Year		1999	1998	1997	1996	1995
Drugstore Units	Openings					
	New Stores	386	303	247	205	202
	Acquisitions	–	1	4	5	4
	Remodelings	33	47	46	71	84
	Closings	114	113	86	102	89
	Year-End: Units *(1)*	2,821	2,549	2,358	2,193	2,085
	Year-End: Sales Area *(2)*	29,230	26,024	23,935	22,124	20,731
Product Class Sales	Prescription Drugs	52%	50%	47%	45%	43%
	Nonprescription Drugs *(3)*	12	12	13	13	13
	Cosmetics, Toiletries *(3)*	8	8	8	8	8
	General Merchandise *(3)*	28	30	32	34	36

(1) Includes 70 pharmacy-only units and two mail service facilities.

(2) In thousands of square feet.

(3) Estimates based, in part, on store scanning information.

SHAREHOLDER INFORMATION

Corporate Headquarters

Walgreen Co.
200 Wilmot Road
Deerfield, Illinois 60015
(847) 940-2500

Internet Address

Major press releases and other information are available on Walgreens website: www.walgreens.com

Stock Market Listings

New York Stock Exchange
Chicago Stock Exchange
Symbol: WAG

Investor Contacts

Rick J. Hans
Jeffrey A. Rein

Annual Shareholders' Meeting

You are cordially invited to attend the meeting to be held Wednesday, January 12, 2000, 2 p.m. CST in the Grand Ballroom, Navy Pier, Chicago, Illinois.

Formal notice of the meeting, with proxy card and proxy statement, was mailed to all shareholders of record as of November 15, 1999.

Shareholder Communications

Please address inquiries or comments to:

Shareholder Relations
Walgreen Co. – Mail Stop #2261
200 Wilmot Road
Deerfield, Illinois 60015
(847) 914-2972

The company's annual report to the Securities and Exchange Commission, Form 10-K, may be obtained by any shareholder, free of charge, upon written request.

Quarterly Reports

Quarterly earnings release dates for 2000 are January 3, March 27, June 26 and October 2. Results are released to the press and posted on Walgreens website. Quarterly reports are also mailed to shareholders on request. You may request reports at any time by contacting Shareholder Relations at (847) 914-2972.

Dividend Payment Dates

Walgreens pays dividends in March, June, September and December. Checks are customarily mailed on the 12th of each of these months.

Transfer Agent and Registrar

For assistance on matters such as lost shares or name changes on shares, please contact:
Harris Trust and Savings Bank
Shareholder Services
311 West Monroe Street, 14th Floor
Chicago, Illinois 60690
(888) 368-7346
E-mail: webshare@harrisbank.com
Website: www.harrisbank.com

Direct Stock Purchase Plan

(Replaced Walgreens Dividend Reinvestment Plan in September 1997)

Harris Trust and Savings Bank is sponsoring and administering a direct stock purchase plan called Harris DOCS as a convenient method of acquiring additional Walgreen stock by reinvestment of dividends, optional cash payments, or both. For an information booklet and enrollment form, please call (888) 368-7346 (shareholders) or (888) 290-7264 (non-shareholders). General inquiries to Harris regarding your Walgreen stock should be directed to (888) 368-7346.

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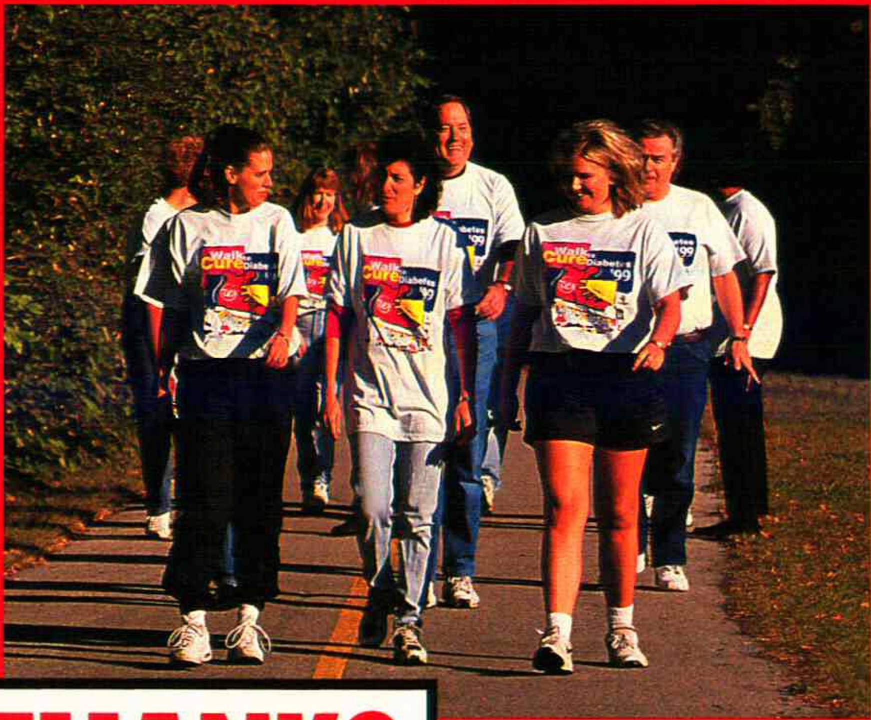

SIMPLY THANKS

WALGREEN EMPLOYEES (ABOVE) JOIN A "WALK FOR THE CURE" TO BENEFIT DIABETES RESEARCH THIS OCTOBER. DURING 1999, WALGREENS, WITH THE HELP OF EMPLOYEES, CUSTOMERS AND VENDORS, RAISED NEARLY $2.5 MILLION FOR THREE MAJOR HEALTH ASSOCIATIONS: THE JUVENILE DIABETES FOUNDATION, AMERICAN CANCER FOUNDATION AND AMERICAN HEART FOUNDATION.

WE'D LIKE TO THANK EVERYONE WHO PARTICIPATED IN THESE PROMOTIONS... YOUR KINDNESS IS MAKING A DIFFERENCE.

Walgreens

Walgreen Co. 200 Wilmot Road Deerfield, Illinois 60015
www.walgreens.com